



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JOHN D. CHERRY, JR.
LT. GOVERNOR

February 12, 2004

My Fellow Citizens:

The budget I present to the Legislature today is more than just pages of columns and rows, more than just facts and figures, debits and credits. It is a roadmap guiding our state to the destination we all seek – a strong, healthy economy and a high quality of life.

Two weeks ago, in my State of the State address, I set forth a seven-point plan that will allow our state to reverse the job losses we have experienced over the last three years and become an economic powerhouse in the 21st century. My plan to grow Michigan's economy will create new tools for retaining the jobs we have today and bringing new jobs to our state. At the same time, my plan will strengthen our schools, make health care more available and affordable for our citizens and protect our irreplaceable natural environment. Our state cannot afford to choose between strategies that will attract and retain jobs and measures that would improve our quality of life – we must do both if Michigan is to win the competition for economic growth in this century.

My budget for the 2005 fiscal year reflects this critical balance. It makes necessary reductions in state spending without sacrificing the education of our children or the health of our most vulnerable citizens. It protects scheduled tax cuts – and avoids general tax increases – to make us more competitive in our efforts to attract and retain good businesses and good jobs.

While I have been your Governor for barely a year, this budget represents the fourth time we have confronted the need to reduce state spending because of the impact the national economic downturn has had on state revenues. Over this last year, I have traveled the length and breadth of Michigan to hear your thoughts about how we should meet this challenge. Wherever I have gone, I have heard a consistent message – cut waste wherever you can find it and when you must cut important programs, don't sacrifice Michigan's future. Find ways to maintain the quality of life that makes Michigan a great place to live, work and do business.

Guided by those principles, we eliminated almost \$3 billion in deficits in 2003. We did it by waging war on waste, a war that will continue everyday that I am your Governor. We tapped the creative power of state employees to find ways to do more with less. We asked local units of government and our colleges and universities to do what every Michigan family does when times get tough – tighten their belts. And we have asked people, most notably those same state employees, to make sacrifices so that the things that matter most to us in Michigan could survive this economic storm.

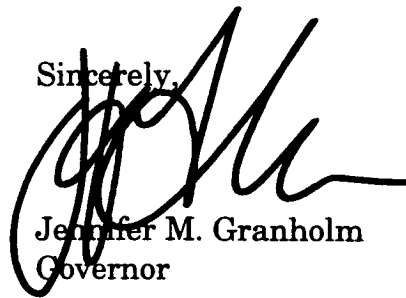
Today the storm continues. While Wall Street talks of recovery, those who live on Main Street see continuing job losses, particularly in the manufacturing sector – the heart of Michigan's economy. While our state is buffeted by the winds of a competitive world economy, we are also victims of federal policies that channel Michigan jobs overseas, erode revenues flowing into our state treasury and shift the cost of critical programs to our beleaguered budget.

Despite the tremendous obstacles thrown up by the world economy, and worsened by Washington policies, this budget reflects my firm belief that Michigan can and will grow our economy and improve our quality of life. To do so, we must close a \$1.3 billion deficit with a balanced approach that steers between the twin dangers we face in this critical stretch in our state's history. If we chose to close the budget gap through general tax increases we would create a huge disincentive to new job creation in Michigan. And, at the same time, if we made the deep cuts in education, in health care and environmental protection, we would repel the very people and investment we must attract to our state.

I am proud of the budget I submit to the Legislature today, because it takes us closer to the vision we seek: the most attractive state in the country to live, work, and grow a business.

I look forward to working with the Legislature to reach this shared destination: a strong, healthy Michigan where good jobs and a high quality of life go hand in hand. As always, I am proud and honored to serve as your Governor during these remarkable times.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer M. Granholm", written over a circular stamp or seal.

Jennifer M. Granholm
Governor

FY 2005 EXECUTIVE BUDGET

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OUR DETERMINATION, OUR DESTINATION: A 21ST CENTURY ECONOMY

Fiscal Year 2005 Executive Budget

In recent years, the state of Michigan has experienced difficult economic challenges. While these challenging times have required many tough decisions, they have also allowed us to reexamine the role state government plays in our quality of life and in improving our job growth.

During her first year in office, Governor Jennifer Granholm has governed with the belief that our spending must align with our priorities, and our priorities with our principles. She continues to follow these convictions in this balanced budget proposal for fiscal year 2005.

Throughout this difficult year, the Governor has engaged the great citizens of this state in a dialogue about the role state government should play. People strongly believe that our government must be fiscally responsible while providing a high quality of life for its residents; exceptional educational opportunities for young and old; affordable health care services; protections for our most vulnerable; and a clean environment. It should come as no surprise that job-creating businesses seek the very same things from state government.

A high quality of life cultivates a healthy business climate, and a robust economy cultivates our ability to deliver quality services to the people of Michigan. The two go hand-in-hand. Governor Granholm's balanced budget proposal for 2005 is based on these principles and serves as a framework for achieving our critical, shared goal -- growing jobs and economic strength in Michigan.

ECONOMY

Michigan's economy continues to suffer from the effects of a prolonged national economic slowdown. While the U.S. economy shows tentative signs of improvement, the manufacturing sector traditionally is slower to recover than other sectors of the economy. With little focus on restoring manufacturing strength nationally, the national economic recovery has been slow to reach Michigan. Michigan has lost some 300,000 jobs in the last three years, a disproportionate share of the nearly 2.4 million jobs lost in the nation during this time.

IMPACT OF FEDERAL POLICIES ON MICHIGAN FOR FY 2005	(\$ in millions)
Loss of Enhanced Medicaid Funds	\$168
Phase-out of Michigan Estate Tax	\$161
Loss of Medicaid Special Financing	\$153
Federal Tax Law Changes	\$74
Federal Mandate -- Medicaid Actuarial Rates	\$67
Loss of Reed Act Funding	\$51
Loss of Federal Funding -- Youth Prison	\$18
TOTAL Impact	\$692

While the national economy continues to place great strain on state budgets, federal fiscal policy is also contributing to the fiscal woes of the states. The Center on Budget and Policy Priorities estimates that changes in federal tax and spending policy have cost states \$185 billion since fiscal year 2002, while federal fiscal relief for the states has totaled only \$20 billion. While Governor Granholm will continue to work with

the state's Congressional delegation to ensure that Michigan receives its fair share of federal dollars, her 2005 budget is based on current federal policies and does not assume any new federal fiscal relief.

In the face of these twin problems, a continuing economic slowdown and costly shifts in federal fiscal policy, states have turned to a variety of measures to solve their fiscal crises. Reserve funds have been drained, services have been slashed, programs have been reorganized, employees have been laid off, and major taxes have been raised. According to *The Fiscal Survey of the States*, 13 states enacted sales tax increases; nine states increased personal income taxes; eight states increased corporate income taxes; two states increased motor fuel taxes.¹

Michigan, in contrast, remains committed to preserving critical services for citizens while keeping the cost of living and doing business in Michigan competitive. During the last year, we eliminated a \$3 billion deficit with a combination of spending cuts, fee increases, increased tax enforcement, federal fiscal relief, and the sale of surplus property. As Governor Granholm stated in her State of the State message, "If you seek a leaner government, look about you." We have the lowest number of state employees since 1974. General fund revenues are the lowest since 1970, while at the same time we are providing services to 1.3 million more citizens than we did 34 years ago.

"It isn't hard to assess Jennifer Granholm's leadership. Her first year as Michigan's governor was defined by a \$3 billion hole in the state budget. The governor met the challenge. She reached out to Michigan residents. She laid out the financial crisis and sought their help in choosing what programs and services should be cut."

Port Huron Times Herald, January 29, 2004

A recent study by the Tax Foundation indicates that Michigan's current tax structure compares very favorably with our economic competitors.² The study concludes that Michigan ranks 18th in the country for favorable tax climate towards business. The respected organization also ranks the state 29th in state and local tax burden as a percent of income. These numbers prove that taxes are not driving people away from Michigan, and that we are an attractive state to families and businesses.

¹ The Fiscal Survey of the States, (12/03)

² Tax Foundation (5/03)

Governor Granholm is determined to preserve this favorable tax climate and believes Michigan must find a way to solve the budget crisis without turning to the general tax increases other states have pursued. She is committed to maintaining a tax structure that can bring new investment and new jobs to Michigan. She is determined to balance our budget with a combination of spending cuts and revenue enhancements that will make Michigan even more competitive in the years ahead.

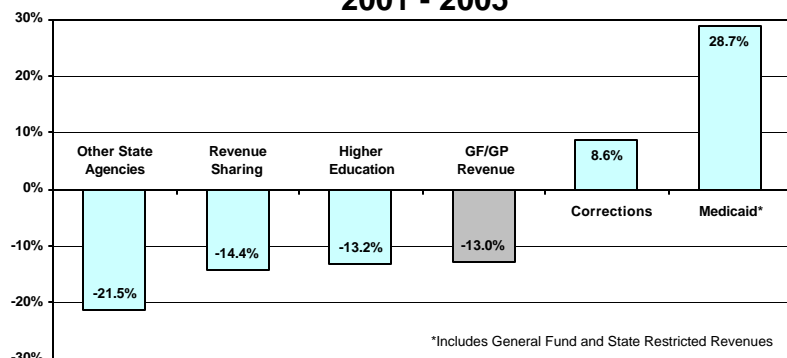
REDUCING SPENDING

Since the state's economic slowdown began in 2001, state government has solved \$5.7 billion in general fund revenue shortfalls by cutting nearly \$2.4 billion in spending. Since Governor Granholm took office, over \$1.4 billion has been cut to make up for the lack of general fund revenue. Many of these cuts have been tough decisions -- decisions that were terribly painful to make. We had to choose between what was important and what was vital.

The cuts already enacted affect virtually everyone in this state in some manner. The following are just a few of the difficult choices that have been made over the last few years:

- Since 2001, revenue sharing payments to local units of government have been reduced \$482 million.
- Funding for institutions of higher learning has been cut \$296 million.
- Adult education funding has been reduced by 75 percent.
- A decline in School Aid Fund revenue triggered a statutory requirement to reduce K-12 spending by \$74 per student in 2003 and 2004.
- Non-emergency health care services such as dental, podiatric, and chiropractic for healthy adults were suspended.
- State employees have made tremendous sacrifices over the past year. Early retirements and hiring freezes have meant workloads have increased dramatically. State employees helped reduce the state's budget deficit by accepting over \$200 million in payroll reductions.
- Due to early retirements and the hiring freeze, there are over 8,000 fewer state employees today than there were four years ago.

**General Fund Spending and Revenues
2001 - 2005**



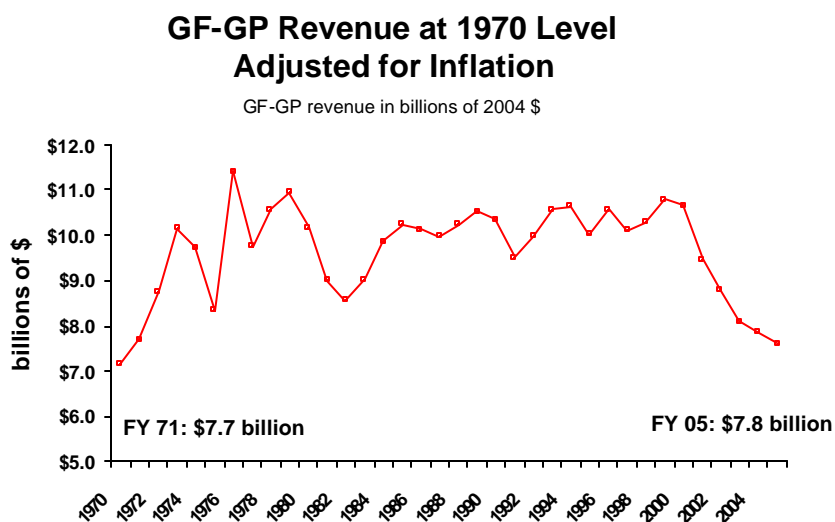
- Funding for the arts community was cut in half, which meant less grant money for local symphonies, art galleries and museums.
- Since 2001, state agency general fund budgets have been trimmed by over 21 percent, a larger percentage reduction than either revenue sharing or higher education.

While these cuts were painful, Governor Granholm used the budget challenges as an opportunity to create a leaner, more efficient government. Governor Granholm has done the following to save \$350 million in administrative costs: calling in cars from the state's fleet, not filling vacant positions, curbing travel costs, reducing cell phone use, conserving energy in state buildings, reducing color copying and printing, canceling subscriptions, eliminating pay for performance bonuses, selling surplus state land, reviewing contracts and rental agreements, and much more.

Regrettably, Michigan is confronted with yet another general fund revenue shortfall – projected to be \$1.3 billion for fiscal year 2005. Governor Granholm's focus has been to protect education for our children and services to our most vulnerable, while at the same time maintaining a high quality of life in order to grow jobs and our economy.

REVENUES

State law requires two revenue conferences per year. The conferees include the State Treasurer and the Directors of the House and Senate Fiscal Agencies. The conferees agree upon baseline revenue estimates for the current year and the upcoming fiscal year for both the general fund and the School Aid Fund. The conferences are held in mid-January and mid-May. The January conference provides the estimates upon which the Governor's budget recommendation is based. The May conference provides an opportunity to review the January estimates before final legislative action on the budget.



Over the last few years the revenues have continuously fallen below the estimates upon which the budget was based. When general fund revenues fall below the estimates upon which the budget is based, the Governor is required by the Constitution to submit a budget reduction proposal to the appropriations committees. In the last 14 months alone, three Executive reduction orders were presented to and approved by the appropriations

committees in order to address mid-year revenue shortfalls. In both fiscal years 2003 and 2004, similar revenue shortfalls in the School Aid Fund triggered automatic reductions in school aid payments of \$74 per student.

The 2005 general fund revenues are estimated at \$7.8 billion, almost \$2 billion less than actual 2000 revenues. When adjusted for inflation, general fund revenues are the lowest since 1970.

OVERALL BUDGET

The overall budget proposed by Governor Granholm for fiscal year 2005 totals \$39.7 billion. The recommendation includes \$12.5 billion for the School Aid Fund, \$8.7 billion general fund, \$1.1 billion for revenue sharing payments to local governments, and \$3.3 billion for transportation needs. The spending priorities in this budget reflect the input the Governor received from the citizens of this state. Even though the budget reflects nearly \$500 million in spending reductions, it protects our quality of life and it will strengthen our ability to grow good jobs.

Despite these tough economic times, the Governor is committed to quality education at all age levels including early childhood, K-12, and higher education. Over \$14.5 billion, or 37 percent, of the 2005 budget is spent on education. The K-12 proposal restores the foundation allowance to \$6,700 and the higher education budget honors the Governor's commitment to restore funding to those colleges and universities that exercise tuition restraint.

The general fund spending plan totals \$8.7 billion. Over 80 percent of the general fund budget is spent in four areas: Corrections, Higher Education, the Department of Community Health (DCH) and the Family Independence Agency (FIA). The two budgets primarily responsible for protecting our most vulnerable citizens (DCH and FIA) account for \$3.6 billion, or 42 percent, of our general fund spending, and \$14.1 billion, or 36 percent, of our total budget.

The budget also recognizes close to \$11 billion in federal revenues that are spread throughout many of the state's programs. Examples include: \$4.2 billion in Medicaid, \$1.1 billion for transportation needs, \$1.3 billion for K-12, \$1.1 billion in federal food assistance benefits, a \$775 million welfare block grant, and almost \$800 million in federal economic development and employment services funding.

GENERAL FUND

FUNDING GAP

The funding gap for fiscal year 2005 is estimated at \$1.3 billion. This figure is based on a revenue gap of almost \$400 million and unavoidable spending pressures exceeding \$900 million. The revenue gap is simply the difference between the general fund revenue estimate of \$8.4 billion and the current year expenditure base of \$8.8 billion.

FY05 GENERAL FUND REVENUE GAP	(\$ in millions)
FY05 Consensus Revenue Estimate	\$7,823
Base Revenue Not Included in Consensus estimates	
Bad Driver Assessments	\$122
Revenue Sharing freeze	\$355
Driver License Fees	\$25
Increased Tax Audit	\$85
Escheats Law Change	\$15
Subtotal Base Revenue Not Included	\$602
TOTAL FY05 Revenue Estimate	\$8,425
FY04 Current Law Appropriations	\$8,813
FY05 REVENUE GAP	(\$388)

FY05 FUNDING GAP	(\$ in millions)
Unavoidable Spending Increases	
Medicaid	\$447
Family Independence Agency	\$25
Corrections	\$44
Labor & Economic Growth: Work First	\$51
Debt Service	\$51
Pension Contribution	\$112
Employee Salary and Wages	\$101
Employee Insurance	\$33
Higher Education--tuition restraint restoration	\$52
Subtotal Unavoidable Spending Increases	\$916
FY05 Revenue Gap	\$388
TOTAL FY05 FUNDING GAP	\$1,304

The spending pressures involve the increased costs of funding existing programs according to current policies and statutes. Medicaid alone accounts for \$447 million of the unavoidable spending pressures. Other spending pressures include increased caseload costs in the Family Independence Agency, full year funding for new prison capacity opened in the current year, increased debt service obligations, higher education tuition restraint pledges,

collectively-bargained employee salary adjustments, state employee pension contributions, and the loss of federal Reed Act support for the Work First program.

The spending pressures are not entirely caused by actual spending increases but, rather, almost half represent a shift in costs from the federal government to the state. For instance, \$454 million is directly attributable to federal mandates or the loss of federal support in Medicaid, Corrections and the Work First program.

Medicaid shortfalls include the loss of federal fiscal relief, the loss of federal funding for special financing transactions, new federal requirements regarding the actuarial soundness of our managed care programs, the inability to obtain statutory approval for a pharmacy provider tax, and a significant increase in caseload and utilization. These cost increases are partly offset by a \$67 million increase in our federal matching funds. The dollar values are detailed in the accompanying chart.

FY05 MEDICAID SHORTFALLS	(\$ in millions)
Loss of Federal Fiscal Relief	\$168
Loss of Federal Special Financing	\$153
Caseload and Utilization Increases	\$106
Federal Actuarial Soundness Requirements	\$67
Pharmacy Provider Tax Shortfall	\$19
Federal Matching Funds	(\$66)
TOTAL Medicaid Shortfalls	\$447

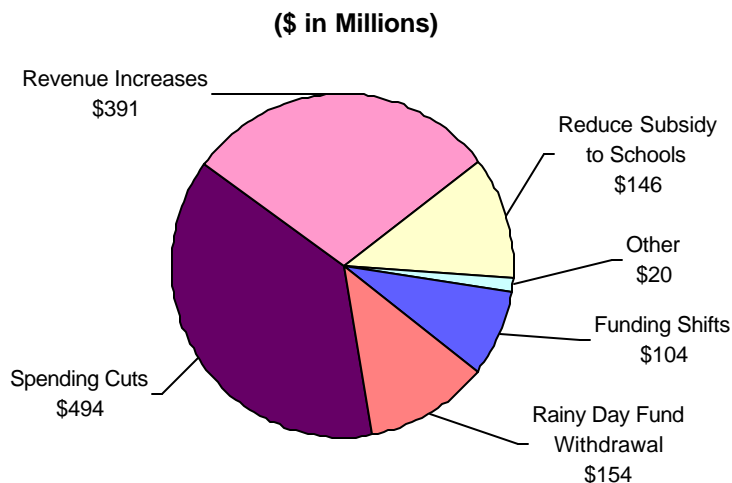
THE OVERALL SOLUTION

In developing the current year budget, the Governor and the Legislature made a good faith effort to reduce the reliance on gimmicks and one-time fixes. The sudden windfall of \$655 million in federal fiscal relief last summer allowed us to set aside \$150 million in reserves, but also increased our reliance on one-time revenue. Within a few months, it became evident that the revenue estimates upon which the original 2004 budget was based were overly optimistic. The Executive Order spending reductions and the income tax pause in December brought the current year back into balance. Unfortunately, the use of remaining reserves once again added to our structural problems.

The Governor is committed to addressing the structural budget shortfall. The only way to fulfill this commitment is to adopt permanent revenue enhancements and spending reductions.

The Governor's budget closes the \$1.3 billion funding gap with an appropriate mix of solutions. The mix includes \$494 million in spending cuts, \$391 million in revenue enhancements, a \$146 million reduction in the general fund contribution to the School Aid Fund, redirection of \$154 million in cigarette tax revenue to Medicaid instead of the Rainy Day Fund, \$64 million associated with the shift in the Merit Award payment schedule, and \$40 million in other fund shifts.

A Balanced Approach to Solving the General Fund Problem



The spending reductions include \$184 million from the suspension of county revenue sharing payments, \$70 million in the Department of Community Health, \$76 million in employee-related savings, \$65 million by eliminating private tuition grants, \$49 million in other agency reductions, and \$50 million in School Aid Fund cuts. The county revenue sharing proposal is really a five-to-twelve year pause in the state's obligation and involves moving counties' property tax collection from the winter to the summer, generating almost \$1.4 billion in county reserves. The counties would then place those revenues in reserve and draw down an amount equivalent to their annual revenue payment each year until the reserves are fully depleted. Once an individual county's reserve is depleted, their revenue sharing payments will be restored.

REVENUE ENHANCEMENTS

In order to find permanent solutions to the Medicaid and general fund structural problems, the Governor's budget includes \$391 million in new revenues. The revenue proposals include a 75-cent increase in the cigarette tax, decoupling from the federal estate tax, and an increase in the liquor mark up from 65 to 74 percent.

Under the Governor's proposal, the tax on a pack of cigarettes will increase from \$1.25 to \$2.00, generating \$295 million in new revenue. The Governor's proposal deposits the first \$30 million into the Healthy Michigan Fund for smoking cessation and chronic disease programs. The remaining \$265 million is deposited into the Medicaid Benefits Trust Fund, offsetting a portion of the lost federal revenue.

Michigan's estate tax is equal to the maximum allowable federal credit for estate and inheritance taxes. Due to changes in the Internal Revenue Code in 2001, the Michigan estate tax is scheduled to be gradually phased-out over four years. In fiscal year 2000, the estate tax generated \$180 million. Over the last few years, the state's budgets have reflected the phase-out of this tax. Absent any changes, the fiscal year 2005 budget would lose another \$45 million.

The Governor is proposing that Michigan join 18 other states and the District of Columbia who have already decoupled from the federal estate tax. The Governor's proposal would generate \$94 million in fiscal year 2005 and \$130 million on a full-year basis. The proposal applies to deaths after July 1, 2004, and includes a filing threshold of \$1 million, with exclusions for family-owned farms and businesses. With these changes, the estate tax would impact only 1,600 estates per year, approximately 1 percent of filers in Michigan. The revenue would be deposited into the Medicaid Benefits Trust Fund.

The estate tax is an existing Michigan law and these proposed changes actually increase the filing threshold that was in place before the federal phase out began in 2001. The phase out of the federal estate tax is not a permanent tax cut since it expires in 2010. The proposed changes to Michigan's law, however, would permanently put in place the exemptions for family-owned farms and businesses, as well as increasing the filing threshold.

The Governor is also proposing an increase in the mark-up applied to liquor sales. The Liquor Control Commission establishes uniform prices for the sale of alcoholic liquor. The commission then applies a mark-up, or gross profit margin, of not more than 65 percent. The profits are deposited into the Liquor Purchase Revolving Fund. The Governor's recommendation is to allow the Liquor Control Commission to increase the mark-up to 74 percent. The increase would apply only to liquor, not beer or wine. The first call on the increase in profits would be to fully fund local fire protection grants. The remaining profits would increase general fund revenues by \$32 million.

SCHOOL AID

Fiscal year 2005 School Aid Fund revenues, estimated at nearly \$11 billion, exceed general fund revenues of \$7.8 billion by over 40 percent. Additional earmarked school aid revenues of \$35.2 million are anticipated from enhanced tax collection enforcement and other minor revenue adjustments. As a result, the general fund subsidy to the School Aid Fund can be reduced to \$132 million without jeopardizing funding for local schools. Federal funds of \$1.3 billion bring the overall school aid budget to nearly \$12.5 billion, approximately \$104 million more than the pro-rated fiscal year 2004 budget.

The fiscal year 2005 school aid budget fully funds a minimum foundation allowance of \$6,700 per pupil — a level that had been promised by the past Administration, but never achieved. Districts with declining enrollments are assisted by a return to the 50/50 blending of prior year and current year pupil counts used when Proposal A was implemented. Those districts with foundation allowances equal to or greater than \$9,000 per pupil continue to be paid at the reduced 2004 pro-rated level.

Additionally, the budget provides over \$1.2 billion (\$906 million state funds) for special education services and over \$740 million (\$314 million state funds) of supplemental support to improve student achievement.

The Governor's *Project Great Start* for preschoolers includes an expansion of the Great Parents, Great Start program operated by intermediate school districts for all children from birth to age five. Funding is increased from \$3.3 million to \$10 million for programs that encourage positive parenting skills, promote early literacy, and mitigate the need for special education services. Intermediate school district funding is reduced by \$6.7 million to pay for this increase. In addition, \$85 million provides preschool opportunities for over 25,000 four-year-olds.

"When stuck with a massive budget deficit, with little indication that the nation's sluggish economy will rebound anytime soon, the governor had no choice but to make some tough decisions, even if it meant that many special interest sectors would be hit hard. We applauded Granholm for keeping her promise to spare education from significant budget cuts."

The Macomb Daily, June 4, 2003

The Governor's *Learn to Earn* initiative announced in her State of the State message is funded in the school aid budget by earmarking \$1 million of matching funds for grants to intermediate school districts. The districts will develop plans to open *Learn to Earn* Centers for students who have dropped out of traditional high schools. These specialized high schools will focus on providing students an environment that integrates academic knowledge with experiential learning opportunities in order to prepare for careers of their choice. Funding for traditional vocational education programs is also maintained at \$39 million, as well as adult education at \$20 million.

HIGHER EDUCATION

The focus of the Governor's higher education budget is to keep Michigan's public higher education institutions accessible and affordable during these difficult economic times. Her fiscal year 2005 budget for universities, community colleges, and student financial aid totals over \$1.9 billion.

In December 2003, the Governor and the Legislature agreed to a reduction plan that reduced operational spending by 5 percent. Those universities and community colleges

"The National Center for Public Policy and Education says that at least 250,000 people were priced out of a college education in 2003. Granholm's deal seeks to mitigate that trend - forcing universities to accept a smaller than expected budget hit in exchange for inflation-based tuition increases. It's a creative compromise that colleges and universities should embrace."

Lansing State Journal, February 6, 2004

that pledge not to increase tuition and fees for the remainder of this academic year, and not to increase 2004-2005 tuition and fees above inflation, will have 3 percent of their base funding restored. The Governor's budget recommendation honors that commitment. Those universities and community colleges that do not accept the tuition restraint pledge will have their state aid reduced by another 3 percent. The funding in the 2005 budget for higher education is based on the assumption that all universities and community colleges will accept the Governor's challenge to hold down tuition and fees.

Unfortunately, Michigan can no longer afford to subsidize tuition for private institutions. The fiscal year 2005 budget eliminates \$65 million for tuition grants available only to students attending private institutions. Remaining student financial aid programs totaling over \$130 million are maintained. Nearly all of these financial aid programs are accessible to students who attend both private and public institutions.

HEALTH CARE

The Governor acknowledged in her State of the State message that “few things affect the quality of our life and the quality of our work more than our good health.” To that end, in fiscal year 2005, Michigan will invest \$9.8 billion in health care and health-related programs, including over \$3 billion in state funds. These funds support health coverage for low-income families and individuals, provide mental health services throughout the state, and fund a range of prevention and education programs.

Medicaid is a joint federal-state program that provides health coverage for over 1.3 million residents of Michigan. Unfortunately, that federal-state partnership is broken. The federal government is increasing mandates on the state, and significantly reducing its financial commitment to the program, at a time when the state is least able to absorb the costs. Enhanced federal matching funds helped states weather the recession in 2003 and 2004; even though our Medicaid caseloads are still at record levels, those funds will not be available in fiscal year 2005. In addition, the federal government is eliminating special financing arrangements, costing the state over \$150 million next year and an additional \$150 million in 2006. Compounding the problem, the federal government is requiring increases in reimbursement rates for managed care organizations – which will cost Michigan over \$67 million next year — at the same time that they are

withdrawing funding for the program. These combined federal actions require the addition of over \$385 million in state funds to the Medicaid program. The state must identify a stable revenue source to replace the lost federal funds.

“Increasing health care costs and the growing number of people living in poverty as a result of the weak economy have created record-level spending on the health insurance program for the low-income residents.”

Lansing State Journal, October 25, 2003

As discussed earlier, the Governor recommends a 75-cent per pack increase in the cigarette tax. Because smoking leads to increases in health care expenditures, the Governor also recommends that this funding source be dedicated to health care. When approved, the cigarette tax increase will provide almost \$265 million in direct, ongoing support for the Medicaid program.

The Governor also proposes that a portion of the tax (\$30 million) be invested in smoking cessation and preventative health programs. Studies show that increases in the price of cigarettes are most likely to deter teenagers from smoking. In a recent report, the National Academy of Sciences, Institute of Medicine concluded that “The single most direct and reliable method for reducing consumption is to increase the price of tobacco products . . .”¹ Studies suggest that a 10 percent increase in the real price of cigarettes will reduce cigarette consumption by 3 - 5 percent overall and 6 - 7 percent in children.² Based on these averages, a 75-cent per pack tax increase would mean 60,000 fewer adult smokers and 94,000 fewer minor smokers in the state.³

¹ National Academy of Sciences’ Institute of Medicine (1998); “Taking Action to Reduce Tobacco Use.”

² National Center for Tobacco-Free Kids (2002); “Raising Cigarette Taxes Reduces Smoking, Especially Among Kids.”

³ National Center for Tobacco-Free Kids (2003); “State Cigarette Taxes & Projected Benefits from Increasing Them.”

In addition to increasing the revenues supporting the Medicaid program, the Executive Budget also includes various proposals to reduce program costs. The proposals have been crafted to minimize the impact on recipients of health care, while reducing costs by over \$100 million gross, \$70 million general fund. These cost containment proposals include increased efforts to secure reimbursements from responsible third parties, reductions in pharmacy-related costs, increases in vital records fees, and changes in the nursing home payment policy for temporary hospital stays.

Funding for mental health services is recommended at \$2.3 billion in 2005, an increase of 4 percent over current year levels. This funding includes a rate increase of \$29 million, \$13 million general fund, to ensure that payments to mental health providers are actuarially sound in accord with federal requirements.

SERVICES TO FAMILIES AND CHILDREN

When Governor Granholm took office, she made a commitment to protect Michigan's families. This budget follows through on that promise by providing funding for critical "safety net" programs and dedicating resources to services and initiatives that improve the lives of children.

The budget funds anticipated caseload increases for the Family Independence Program, which provides a monthly cash assistance grant to approximately 78,500 low-income families, and dedicates resources for employment services to help these families achieve economic independence. The Governor also proposes a budget of \$518 million for day care services, so that children can be cared for while their parents work, search for a job, or further their education.

Families receiving support from the Family Independence Program currently receive an annual allowance of \$40 per child to purchase clothing for their school-aged children. The Executive Budget provides another \$3.1 million to extend this clothing allowance to *all* children receiving cash assistance, and to increase the annual payment to \$50 per child.

Governor Granholm further recommends \$114 million for Welfare-to-Work programs for our state's neediest citizens. Additional Temporary Assistance for Needy Families (TANF) funds of \$11 million and additional general fund revenues of \$40 million replace federal Reed Act money, which was rescinded by the federal government. These funds will be used to provide employment and training services to public assistance recipients.

The Governor's budget also provides \$83 million to aid workers who have lost employment due to job losses resulting from the North American Free Trade Agreement.

Besides providing income assistance, work support, and food benefits for low-income families, the Executive Budget supports a variety of service programs including foster care

to protect children who cannot remain safely in their own homes, adoption subsidies to assist special needs children in achieving permanent homes, and family services to preserve and reunify troubled families. Juvenile justice services are also provided to delinquent youth referred to the state for placement and supervision.

The Children's Action Network, initiated by Governor Granholm last year, brings together state and local agencies to work collaboratively to better support Michigan children. The Family Independence Agency is the lead agency to implement an important initiative of the Children's Action Network – an effort to improve human service delivery through school-based family resource centers. To date, 20 full-time family resource centers have been opened in “high priority” neighborhood schools, bringing assistance directly to the families that need them. Building on this successful model, 20 more family resource centers will be opened in the coming year, within existing budgetary resources.

GROWING OUR ECONOMY

In Governor Granholm's State of the State message, she presented a blueprint that will allow Michigan to become an economic powerhouse by attracting and retaining good jobs. Many of the Governor's initiatives begin with the newly created Department of Labor and Economic Growth. This centralized and streamlined “one-stop” agency will focus on job creation, workforce development, and economic growth. The consolidation of these functions allows our state to position itself as one of the most nimble and business-sensitive states in the nation.

In cooperation with the Michigan Economic Development Corporation, three new financial tools are being created to help businesses take root in Michigan and grow new jobs at every stage of development—the Emerging Business Fund, the Venture Michigan Fund, and the Small Business Growth Fund. Although no new state funds will be required to support this initiative, the creation of these financial tools sends a strong message to entrepreneurs and businesses that we stand ready to help grow business and create new jobs here in Michigan.

The Executive Recommendation maintains funding of \$15 million for the Technology Tri-Corridor, which is a catalyst for research, development and commercialization in high-tech areas.

TRANSPORTATION

More than at any time in its history, the Department of Transportation is partnering with local stakeholders and the public to create a collective vision for the future of transportation in Michigan. This vision includes not only the roads we drive and the bridges we cross, but also the integral network of transit, rail freight, marine, and aviation services that together so directly impact the quality of life for residents and visitors alike. Governor Granholm's recommended transportation budget for fiscal year 2005 totals \$3.3 billion, a 6 percent increase over the current year.

Highlighting the Governor's budget recommendation is an additional \$26 million for local critical bridge repairs resulting from the re-direction of one-half of one-cent of the state

"Granholm's Preserve First program is the only sensible course for a strapped state whose roads are among the nation's worst."

Detroit Free Press, June 17, 2003

gasoline tax currently dedicated to state trunkline bridge repairs. Along with adding resources, the Governor is also firmly committed to critical bridge program reforms that will place an emphasis on preventive maintenance and rehabilitation to ensure dollars are cost-effectively invested and the overall local bridge system is improved.

The re-authorization of the federal Transportation Equity Act of the 21st Century (TEA-21) continues to be a priority for Governor Granholm and a broad coalition of interest groups who seek to return a "fair share" of federal transportation dollars to Michigan. Congress has temporarily extended the authorization of TEA-21 through the end of February 2004. Michigan's transportation program relies on over \$1 billion in federal aid each year, and is not well-served by delays in determining long-term resource allocations. Governor Granholm strongly supports the expedient passage of a new six-year transportation bill that rectifies our state's donor status and returns a minimum of 95 percent of federal funds to Michigan for highways and public transit.

PUBLIC SAFETY

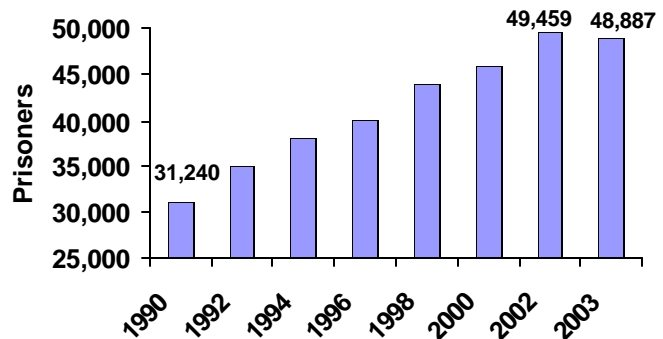
CORRECTIONS

The Five-Year Plan to Control Prison Growth has had a positive impact on a burgeoning prison population. The number of prisoners under the Department of Correction's control declined in 2003, marking the first decline since 1983. The prison capacity benefits that have been derived through the early successes of the Five-Year Plan will lead to the closing of the Western Wayne Correctional Facility near Plymouth during fiscal year 2005. This older, less cost-efficient facility will be closed, with prisoners shifted to a newer facility in Ypsilanti that is currently underutilized.

Further success with the Five-Year Plan requires continued action. As part of the fiscal year 2005 Executive Recommendation, Governor Granholm recommends modifications in sentencing guidelines to bring probation violators into the guidelines structure, and to make adjustments to sentencing guidelines for certain crime classes. The changes do not effect Michigan's Truth-In-Sentencing statutes. The state will continue to work within the existing Community Corrections framework to reinvest in criminal justice options at the local level.

A significant spending pressure for the department in fiscal year 2005 is the replacement of federal funding that has ended. The Executive Recommendation includes \$18 million in general fund replacement for federal Violent Offender Incarceration/Truth-In-Sentencing (VOI/TIS) funding. Since fiscal year 2000, the state has utilized over \$100 million in VOI/TIS funding for various prison construction programs, as well as operations funding at the Youth Correctional Facility. The fiscal year 2005 general fund increase will support continued operations of this 480-bed facility located in Lake County.

**Prison Population Decreased Slightly in 2003
After Many Years of Growth**



The Executive Recommendation also includes a \$14 million adjustment for operation of 965 prison beds in the Jackson prison complex. The beds were previously operated with the support of work project funding that is no longer available.

The Department of Corrections continues its active efforts to control costs with over \$29 million in specific general fund reductions included in the fiscal year 2005 Executive Recommendation. Savings initiatives include optimizing the inmate transportation system, security adjustments, prisoner health care savings, and consolidation of certain administrative functions, among other reductions.

HOMELAND SECURITY

Homeland security and critical public safety services are top priorities in the Governor's budget. New federal homeland security funds in the departments of State Police and Military and Veterans Affairs will be used to detect, prepare for, protect and respond to any threats of violence to the residents of the state. In total, this budget includes over \$60 million to support homeland security efforts and \$52 million to address bio-terrorism threats. The budget also includes capital outlay funding to consolidate facilities for the Department of Military and Veterans Affairs into a secure, centralized location in North Lansing to better respond to national and state emergencies.

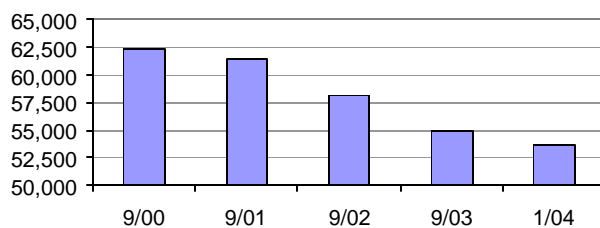
The Governor's commitment to the safety of our families is exhibited in the fiscal year 2005 budget for the Michigan State Police. The budget supports completion of the 100-candidate state trooper school, which will begin late in fiscal year 2004. The trooper school will bring trooper strength to an acceptable level of 1,100. The budget also includes an additional \$1 million to help reduce the DNA analysis backlog so that criminals can be brought to justice as soon as possible. Over \$30 million is recommended for improvements to state and local emergency 9-1-1 dispatch centers.

EMPLOYEE-RELATED ECONOMIC COST INCREASES

The Governor has repeatedly expressed her gratitude and admiration for the employees of our state government. These are stressful times for employees who are doing their work with over 8,000 fewer co-workers than just four years ago, while at the same time accepting significant reductions in their take-home pay. Despite their hard work, frugality, and pay cuts, Michigan is still waiting for our economy to improve.

As part of her proposal to resolve a projected shortfall in the fiscal year 2004 budget, the Governor asked state employees to be part of the solution to the state's budget crisis; she asked for their assistance, cooperation, and suggestions. They stepped up to the challenge and worked cooperatively with the Office of the State Employer.

**Change in Classified Employees
September 2000 to January 2004**



The end result was that the State Employer and the unions negotiated employee concessions consisting of furlough days, banked leave time, and increased medical co-pays that, together with similar adjustments for non-union employees, contributed over \$200 million worth of savings to the fiscal year 2004 budget. Employees paved the way for other savings with voluntary work schedule adjustments and by helping to reduce our dependence on costly outside contractors.

For the most part, the cost saving measures that protected the 3 percent pay increase and that addressed other employee-related cost increases are in place for only the current year. Therefore, the 2004 employee salary and fringe benefit costs must be accounted for in fiscal year 2005. In addition, most state employees are scheduled to receive a 4 percent pay increase in fiscal year 2005, at a total estimated cost of \$112 million, \$60 million general fund.

Equally significant, the required contribution to the state's pension systems will increase by over \$204 million, \$112 million general fund, due to a substantial boost in unfunded accrued liability in the state's defined benefit pension system. The unfunded liability is

attributable to the pension system investment losses in 2000 and 2001, coupled with the impact of the 2002 early retirement package. And, as is happening in every sector of the health care system, employee health insurance costs in 2005 will be 13.6 percent higher than in 2003.

In total, in order to fully fund employee salary, pension, and insurance costs, the budget needs to increase by over \$458 million, \$247 million general fund. Obviously, the state cannot afford to fund the entire increase in one fiscal year. Therefore, although the 2005 budget includes full funding for employee-related economic increases, further employee-related savings will be required.

The Governor is determined to preserve the fiscal year 2004 three percent base pay increase and to make possible the scheduled 4 percent pay increase. To achieve this important goal, we must again look to our employees to help us identify and implement budgetary savings. The total value of the necessary savings is \$148 million. We will be asking state employees to work with their agencies and with the Office of the State Employer to identify these savings, which may be found again in reducing our dependence on wasteful outside contracts, promoting voluntary work schedule adjustments and, regrettably, to some extent through continuation of a portion of the temporary wage and benefit concessions.

The magnitude of this necessary savings adjustment is significant, but with focused efforts underway to work with state employees to reduce the cost of outside contracting, any wage and benefit adjustments for fiscal year 2005 should be limited to banked leave time, and the 4 percent base pay increase should be protected.

REVENUE SHARING

The state provides unrestricted financial support to over 1,800 units of government and allows them to determine how they may make the best use of their financial resources.

The financial support comes in the form of revenue sharing payments, which are comprised of a constitutional and statutory obligation. This budget recommends over \$1.1 billion in payments to cities, villages, and townships. The constitutional obligation for fiscal year 2005 is \$692 million and is dispersed on a per capita basis. The remaining \$443 million, which is subject to appropriation, is recommended in this budget.

For fiscal year 2005, overall revenue sharing payments for cities, villages, and townships are equivalent to the fiscal year 2004 spending level. Governor Granholm proposes that a portion of these funds be used for payments-in-lieu-of-taxes to local units of government for lands owned by the Department of Natural Resources. Revenue sharing appropriations will pay an estimated \$7.5 million for these tax obligations in 2005. The remainder of revenue sharing funds will be distributed as unrestricted financial support to local units of government.

Under this proposal, tax payments for these properties would no longer be financed from the general fund, Game and Fish Fund, Waterways Fund, and Natural Resources Trust Fund. The resulting savings for the fee-supported funds can be reinvested in conservation and recreational activities more consistent with the purpose for which the fees were originally collected.

For fiscal year 2005, Governor Granholm recommends an alternative to county revenue sharing payments. Under this proposal, the county property tax levy will be permanently shifted from December to July each year. Counties will receive additional revenue of \$1.4 billion as a result of changing the tax collection schedule. Counties would hold these funds in reserve to be annually expended during years in which state revenue sharing payments are suspended.

Suspending county revenue sharing payments for fiscal year 2005 allows more than \$180 million to be redirected to other areas of the state budget. An equivalent amount would be available in each of the next five years. A county would become eligible for renewed revenue sharing payments when the county's funding reserve is less than the county's suspended revenue sharing payment.

CONCLUSION

Since Governor Jennifer Granholm took office, she has been committed to reducing the historic gap between state spending and state income. This "structural imbalance" threatens the stability of the overall state budget which, in turn, threatens the state's ability to protect its quality of life and attract new businesses. In her budget proposal for the current fiscal year, Governor Granholm worked to solve the structural shortfall with a combination of fee increases, accounting measures, and painful spending reductions. She deliberately avoided additional cuts because there was no consensus to do so.

"But we continue to maintain that government services are an important component of quality of life in any state or community. The argument that businesses are being driven away from Michigan by taxes just doesn't hold water anymore....It's possible that the day could come when companies won't come to Michigan because of its ruined roads, closed parks, decimated schools and other examples of damaging neglect."

Kalamazoo Gazette, January 25, 2004

Today, we must collectively ask how much further we can cut without sacrificing the quality of life that is critical for both our residents' and our businesses' well-being. We must put politics aside and recognize that in order to solve the remaining budget shortfall, permanent revenue fixes must be part of the overall solution. These revenue solutions are desperately needed to replace revenues that have been lost because of changes in federal policies.

As spending pressures continue to increase and revenues continue to decline, this balanced budget proposal protects education funding; stresses the importance of quality health care; preserves services for the state's most vulnerable; enhances funding for public safety; strengthens environmental protection; and develops specific tools that will create good jobs for Michigan citizens – all without raising general taxes.

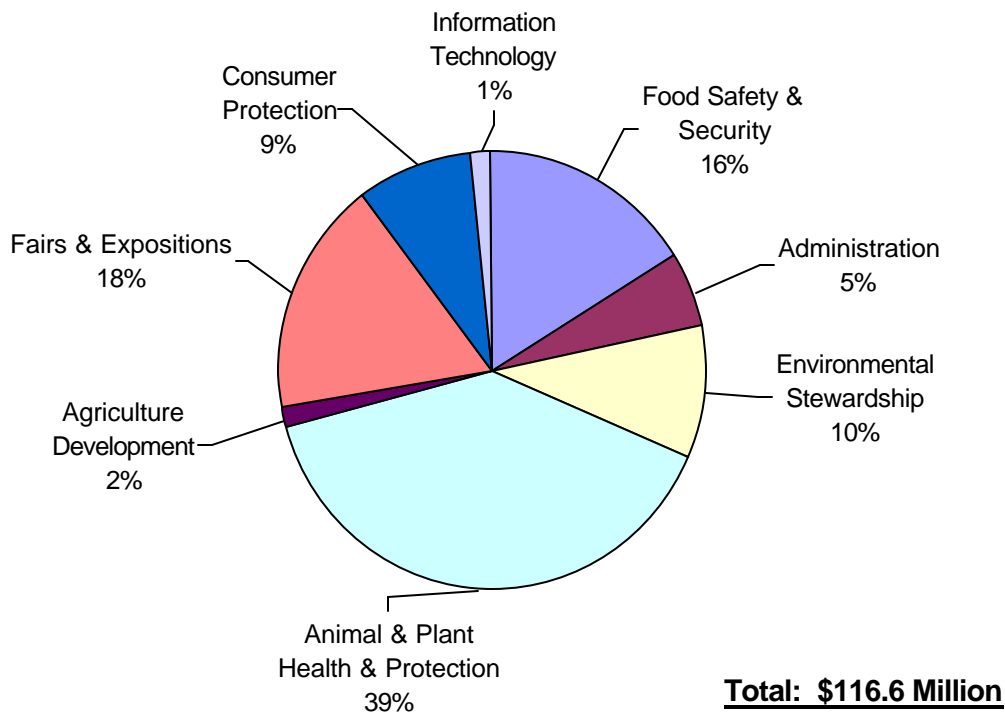
This budget does not sacrifice vital services for the sake of cutting, nor does it spend frivolously on unnecessary services. Governor Granholm's budget wisely cuts spending and responsibly raises the necessary revenue to pay for the critical services the citizens of Michigan deserve. The recommended budget for 2005 is balanced and preserves the high quality of life Michigan citizens desire and job providers expect when deciding where to do business. It is the blueprint for creating a 21st century economy that will create new jobs.

If we are to make Michigan into an economic powerhouse, we must begin now – we must begin with this balanced budget.

Department of Agriculture

The Department of Agriculture provides services to the Michigan food and agriculture community through a variety of food safety, environmental protection, and animal and plant health programs. Agriculture is Michigan's second largest industry and the state is ranked #1 nationally in the production of many agricultural products. The Governor's proposed budget for fiscal year 2005 recommends total funding of \$116.6 million, of which \$31.5 million is general fund.

Consumer Protection Programs Comprise Two-Thirds of the Budget



Department Priorities

- Ensure a safe, secure and wholesome food supply.
- Protect and preserve Michigan's natural resources and farmland by promoting environmental stewardship and preventing agriculture-related pollution.
- Protect animal and plant health.
- Promote viable agriculture development and economic profitability for Michigan farmers.
- Assure consumer protection and fairness in the marketplace.

Agriculture Budget Highlights

The fiscal year 2005 budget for the Department of Agriculture reflects the Governor's continued commitment to ensuring a safe food supply while protecting the health of Michigan's native and landscape plant resources and ecosystem. These commitments are reflected in the fiscal year 2005 budget through the provision of \$26.5 million for various food safety efforts, and \$37.7 million to support pesticide and plant pest management efforts.

Through strong partnerships with federal and local agencies, and enforcement of the state's strict food and dairy laws, the department works to ensure continued safety at each step of the food chain. Michigan is one of the first states in the nation to take a comprehensive "farm to fork" approach to the overall concept of food security, enhancing protection of public health and the state's food and agricultural infrastructure. Plant pest control efforts include the inspection and certification of nursery stock, plants and plant products, and the monitoring of incoming commodities to the state.

- ◆ Michigan continues its efforts to eradicate bovine tuberculosis (TB) from its livestock populations. The Governor's fiscal year 2005 recommendation enhances the level of support for the bovine tuberculosis program with the addition of \$350,000 in available federal support, bringing total funding to \$5.2 million. These resources will provide for continued monitoring and periodic surveillance testing for cattle herds across the state. Michigan is also diligently working to obtain a split-state bovine TB designation from the U.S. Department of Agriculture, which will greatly enhance livestock producers' market opportunities in other states.
- ◆ The Governor's budget includes enhanced federal funding of \$17.7 million to combat the Emerald Ash Borer, a new exotic beetle that attacks and destroys ash trees, bringing total funding support for Emerald Ash Borer eradication efforts to \$25.2 million for fiscal year 2005. The Department of Agriculture, in cooperation with federal, state and local interagency, university and private industry groups, will be able to detect areas of infestation, eradicate, and restore areas impacted by eradication activities. The ultimate goal is to protect the rest of the ash resource in Michigan, the Great Lakes region, and all of North America. The Governor's recommendation also includes a fiscal year 2004 supplemental of \$17.7 million in federal support for Emerald Ash Borer eradication efforts.
- ◆ The preservation of Michigan's unique open spaces and critical farmland is addressed through a variety of incentive driven initiatives under the Farmland and Open Space Preservation program. The cornerstone of this effort is a temporary easement program, whereby farmland owners voluntarily agree to temporary restrictions on their property and limit the development of the land. In exchange, a landowner receives an income tax credit and the land is exempt from various special assessments. Available also is a program to purchase

development rights on unique or critical farmland. In addition, the Michigan Agricultural Preservation Fund supports grants to local units of government to assist in the acquisition of permanent agricultural conservation easements. The fiscal year 2005 recommendation includes almost \$900,000 for the Farmland and Open Space Preservation program in the Department of Agriculture, and the Capital Outlay budget contains \$7.5 million for the purchase of farmland development rights.

- ◆ The fiscal year 2005 recommendation provides funding of \$1.6 million to support local conservation districts. In addition, a \$1.0 million interdepartmental grant from the Department of Natural Resources maintains support for the Cooperative Resources Management Initiative (CRMI). CRMI is a partnership involving Agriculture and Natural Resources, as well as local conservation districts, designed to assist private landowners with land management techniques.
- ◆ Enhancing environmental stewardship through the development and implementation of sound agriculture pollution programs remains a priority for the state. Michigan's groundwater stewardship efforts help farmers, homeowners, and other pesticide and nitrogen fertilizer users reduce the risks of groundwater contamination. The Governor's fiscal year 2005 recommendation continues the current level of funding support for environmental stewardship at \$7.5 million.
- ◆ Viable agriculture development is key to a diverse and healthy Michigan economy. The Governor and the Department of Agriculture demonstrated a commitment to marketing agriculture through a pilot partnership in 2003 entitled "Select a Taste of Michigan." Sixty-eight retail stores and approximately 152 growers directly participated in the 2003 campaign, which helped increase sales of Michigan grown food products. Despite a \$200,000 general fund reduction to the marketing program for producer/new market identification efforts, the fiscal year 2005 recommendation maintains \$2.1 million to support agriculture development programs.
- ◆ Due to declines in Equine Industry Development revenues, support for the Office of Racing Commissioner and various racing industry grants is recommended at \$12.9 million, approximately \$1.1 million below the current year level.
- ◆ Funding of \$356,000 is recommended for Johne's disease eradication in cattle and for enhanced slaughterhouse inspections.
- ◆ The Michigan State Fair, which is entirely supported by state restricted revenue, is funded at the current level of \$5.2 million.
- ◆ The Executive Recommendation includes an increase of \$5.1 million to fund employee-related economic increases. Due to current budgetary pressures, the state is unable to fully fund these increases in employee salaries, insurance and pension costs. Therefore, the budget includes a savings adjustment of \$1.8 million to help offset these costs.

Fiscal Year 2005 Governor's Recommendation Department of Agriculture (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$36,773.7	\$30,259.2	\$31,509.4
All Funds	\$100,677.0	\$96,479.0	\$116,641.5
	% Change - GF/GP	-17.7%	4.1%
	% Change - All Funds	-4.2%	20.9%

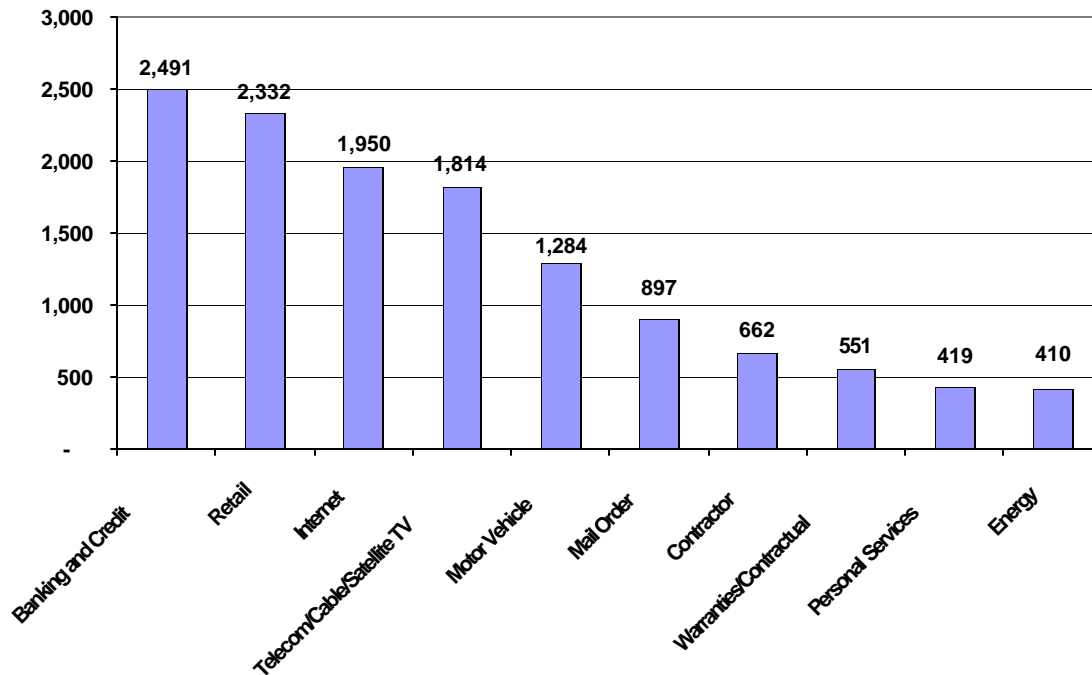
Program	GF/GP	All Funds
Animal and Plant Health and Protection	\$10,727.2	\$45,305.2
Fairs and Expositions	\$218.3	\$20,410.5
Food Safety and Security	\$7,011.0	\$19,192.5
Environmental Stewardship	\$3,899.8	\$11,242.9
Consumer Protection	\$4,041.9	\$10,336.5
Administration	\$3,285.3	\$6,409.9
Agriculture Development	\$968.8	\$2,122.5
Information Technology	\$1,357.1	\$1,621.5
Total FY 2005 Recommendation	\$31,509.4	\$116,641.5

Department of Attorney General

The Attorney General serves as the State of Michigan's chief law enforcement officer and upholds and preserves the state's legal interests. The Attorney General provides legal advice and representation to state officials and agencies and, when warranted, initiates legal action on behalf of the residents of Michigan. The Attorney General also receives and investigates consumer complaints.

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$62.3 million, of which \$30.7 million is general fund.

Top 10 Consumer Complaints for 2003



Banking and credit concerns lead the list for the second year in a row

Department Priorities

- Defend the State of Michigan in lawsuits to minimize the amount of court judgments and settlements paid by the state.
- Initiate lawsuits at the request of state agencies and offices to enforce public compliance with state law.
- Protect Michigan's children through legal representation in abuse and neglect cases and by improving child support collections.
- Provide legal advice and representation to state agencies and officials to ensure state activities comply with the law.
- Investigate consumer complaints and deter unfair and deceptive business practices against consumers.
- Provide advice and training to local prosecutors in order to improve the quality of legal services throughout the state.

Attorney General Budget Highlights

- ◆ The Executive Budget for fiscal year 2005 provides over \$62.0 million for the Attorney General and his staff. The Department of Attorney General consists of 5 bureaus with responsibilities as follows:
 - Child and Family Services – Responsible for child abuse and neglect issues, estates and abandoned property, public health, education and social services matters. The Child Support Collections Division assists local prosecutors, Friends of the Court and the Family Independence Agency in the collection of court-ordered child support from delinquent parents.
 - Criminal Justice - Responsible for alcohol and gambling enforcement, welfare and health care fraud, financial crimes and other criminal investigations and prosecutions.
 - Economic Development and Oversight – Responsible for revenue enforcement and collections litigation, public retirement systems, insurance, and occupational matters including those related to health professionals.
 - Consumer Protection – Responsible for charitable trusts, consumer fraud, enforcement of natural resources regulations, the tobacco settlement and other special litigation.
 - Governmental Affairs – Responsible for civil rights, defense of highway negligence cases, labor, unemployment, and elections issues.
- ◆ The Prosecuting Attorneys Coordinating Council is an autonomous entity within the Attorney General that provides training, automation support and legal research for local prosecutors throughout the state. The Executive Recommendation maintains current funding of \$1.8 million for the Council.
- ◆ The fiscal year 2005 budget includes funding for employee-related economic increases to cover staff salaries, insurance and pension costs, which are projected to increase by \$3.8 million in 2005. Due to the state's ongoing revenue problems, a savings adjustment of \$1.8 million is recommended to partially offset these costs.

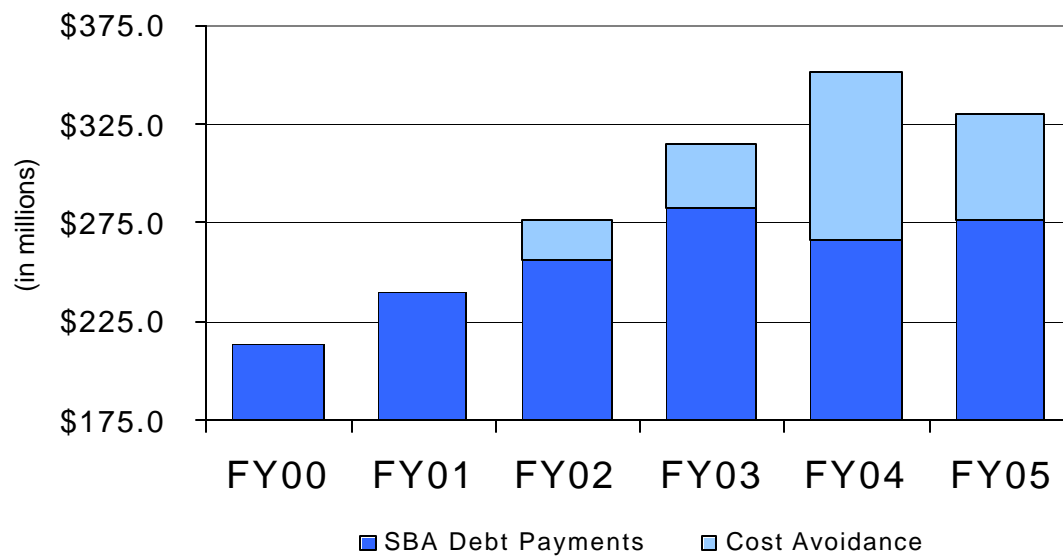
Fiscal Year 2005 Governor's Recommendation Department of Attorney General (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$32,363.4	\$30,259.9	\$30,708.4
All Funds	\$60,353.4	\$60,740.4	\$62,315.1
	% Change - GF/GP	-6.5%	1.5%
	% Change - All Funds	0.6%	2.6%

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Capital Outlay

The Governor's proposed capital outlay budget for fiscal year 2005 includes total funding of \$573.1 million, of which \$271.3 million is general fund. The capital outlay budget includes a general fund increase of \$19.0 million for State Building Authority rent obligations associated with previously constructed higher education facility and state agency projects. Aggressive restructuring of long-term obligations by the State Building Authority has allowed the state to take advantage of favorable market conditions, avoiding over \$192.0 million in general fund costs over the last four years.

State Building Authority Debt Payments



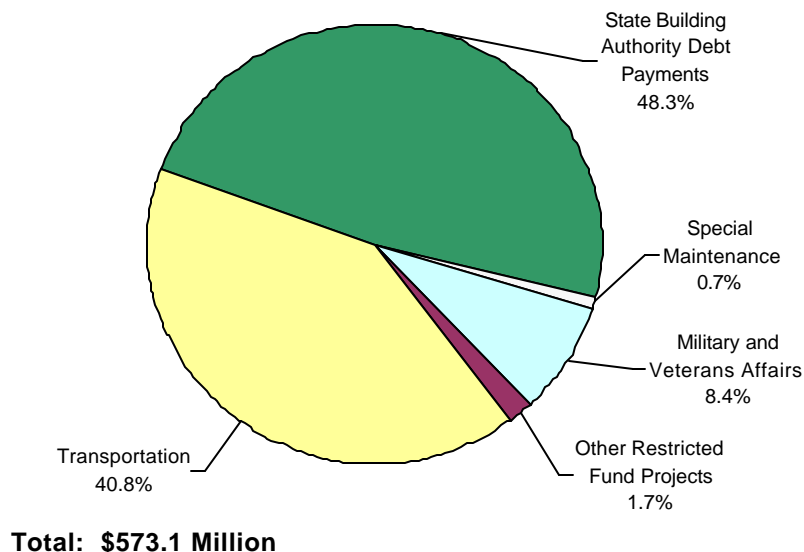
Aggressive restructuring of rent obligation has saved \$192 million since 2002

Capital Outlay Budget Highlights

- ◆ State Building Authority rent obligations total \$277.1 million in fiscal year 2005, an increase of \$11.1 million (\$19.0 million general fund). These rent obligations, which provide debt service for previously constructed university, community college, and state agency capital outlay projects, represent over 99 percent of the general fund in the Capital Outlay budget. In addition, the Executive Recommendation assumes \$6.0 million from the balance in the Commercial Mobile Radio Suppliers Emergency Telephone Fund will be re-directed to support debt payments for the Michigan Public Safety Communications System in fiscal year 2005.
- ◆ Highlighting the Executive Recommendation for fiscal year 2005 is \$13.0 million for the renovation of facilities at the North Lansing Complex, commonly known as Baker-Olin. Transfer of these facilities from the Department of Management and Budget to the Department of Military and Veterans Affairs accomplishes several objectives:
 - Consolidates Department of Military and Veterans Affairs (Lansing area) functions into a secure, centralized location to better respond to national and state emergencies. The adjacency of the Baker-Olin site to the department's \$24.5 million Combined Support Maintenance Shop and \$19.0 million Lansing Readiness Center, both currently under construction at the North Lansing complex, will consolidate military assets at this location. The proximity of these military installations to Bioport Corporation will also provide a higher level of protection for this sole provider of critical vaccines.
 - Leverages \$12.5 million in federal funds for the renovation of these North Lansing complex facilities. Included in this total is \$6.2 million in federal funds previously appropriated for construction of a new U.S. Property and Fiscal Office that will be redirected to this project, along with \$500,000 in state armory construction funds.
 - Avoids costs of approximately \$16.3 million in state funds for necessary improvements at Baker-Olin. Existing building systems at these facilities are in imminent danger of failure, and significantly past useful life expectancy. A sizable state investment in the renovation of these facilities would be required if they were to remain available for tenant occupancy.
 - Allows the Department of Military and Veterans Affairs to divest itself of the South Washington Avenue Armory (reverts to the City of Lansing), dispose of 28 acres of surplus property on St. Joseph Highway currently occupied by the U.S. Property and Fiscal Office, and eliminate private lease costs for the Veteran Affairs Office.
- ◆ Other federally-supported Military and Veterans Affairs projects include \$18.5 million for six new company headquarters buildings with attached barracks and dining facilities at Camp Grayling; \$9.2 million in additional funds for the new hangar and support facilities at the Michigan Air National Guard installation in Grand Ledge; \$2.0 million for a new multi-purpose machine gun range at Camp Grayling; and \$5.6 million for various special maintenance projects.

- ◆ Recommended airport safety and protection plan projects supported with federal, local, and state restricted revenues total \$222.0 million. Recent lowering of the state and local match requirement from 10 percent to 5 percent will allow state and local resources to be stretched further for critical airport safety and security improvement projects.
- ◆ Governor Granholm recommends several Natural Resources projects supported with federal and state restricted funds, including \$1.0 million for state park repair and maintenance, \$900,000 for improvements to forest roads, bridges, and recreation facilities, and \$550,000 for state game and wildlife area maintenance.
- ◆ Federal and state restricted support for farmland and open space preservation is recommended at \$7.5 million in fiscal year 2005.
- ◆ Department of Transportation projects recommended in fiscal year 2005 total \$11.8 million for building and facility improvements, including \$2.2 million for a new maintenance garage in Houghton consistent with the state's assumption of trunkline maintenance responsibilities in Houghton County, \$2.4 million for the next phase of maintenance consolidations at Atlanta in Montmorency County, and \$1.5 million for the renovation and expansion of the Mio garage in Oscoda County.
- ◆ Total funding for state agency special maintenance supported with general fund and building occupancy charges is \$4.0 million in fiscal year 2005, a reduction of nearly 75 percent from fiscal year 2002 levels. Governor Granholm recommends that the minimal funds available for state facility maintenance be consolidated and managed by the Department of Management and Budget in order to better prioritize and target resources to statewide emergency health and safety needs.

**Distribution of Capital Outlay
Appropriations**



Debt payments account for nearly half of all capital outlay spending

Fiscal Year 2005 Governor's Recommendation
Capital Outlay
(\$ in Thousands)

	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$289,166.9	\$252,302.5	\$271,302.1
All Funds	\$638,269.7	\$562,464.1	\$573,148.3
	% Change - GF/GP	-12.7%	7.5%
	% Change - All Funds	-11.9%	1.9%

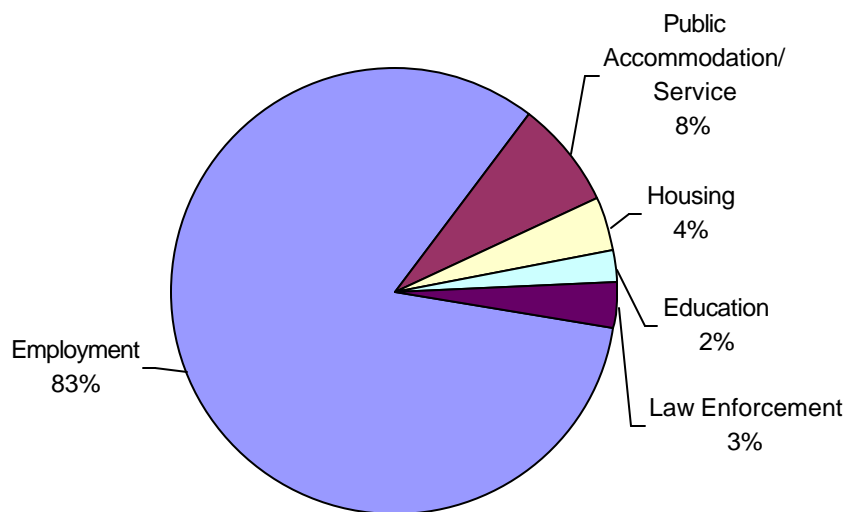
Program	GF/GP	All Funds
STATE BUILDING AUTHORITY RENT		
University Projects	\$111,966.6	\$111,966.6
Department of Corrections Projects	\$77,030.3	\$77,030.3
Other State Agency Projects	\$63,809.9	\$71,604.9
Community College Projects	\$16,495.3	\$16,495.3
DEPARTMENT OF AGRICULTURE		
Farmland and Open Space Preservation	\$0.0	\$7,500.0
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS		
Camp Grayling Company Headquarters Buildings	\$0.0	\$18,500.0
North Lansing Complex Renovations	\$0.0	\$13,000.0
Grand Ledge Army Aviation Facility Construction	\$0.0	\$9,200.0
Special Maintenance Projects	\$0.0	\$5,592.0
Camp Grayling Machine Gun Range	\$0.0	\$2,000.0
DEPARTMENT OF NATURAL RESOURCES		
State Park Repair and Maintenance	\$0.0	\$1,000.0
Forest Roads, Bridges, and Facilities	\$0.0	\$900.0
State Game and Wildlife Area Maintenance	\$0.0	\$550.0
DEPARTMENT OF TRANSPORTATION		
Airport Safety and Protection Plan	\$0.0	\$222,046.2
Building and Facility Improvements	\$0.0	\$11,763.0
STATE AGENCY SPECIAL MAINTENANCE		
Statewide Special Maintenance Projects	\$2,000.0	\$4,000.0
Total FY 2005 Recommendation	\$271,302.1	\$573,148.3

Department of Civil Rights

The Department of Civil Rights resolves and investigates discrimination complaints and works to prevent discrimination through educational programs that promote voluntary compliance with civil rights laws. The department administers programs for complaint investigation, outreach and education, mediation, partnerships, crisis intervention, and contract compliance. The Michigan Women's Commission is also part of the department.

The Governor recommends funding for the department of \$12.8 million, of which \$11.9 million is general fund.

Most Civil Rights Complaints Involve Employment Issues



Total Complaints: 19,000

Department Priorities

- Prevent discrimination by providing Michigan residents with a comprehensive complaint resolution process, outreach and education, preventive strategies and crisis intervention designed to address, protect and advance civil rights.
- Promote an anti-discriminatory climate in Michigan so all residents can expect and have equal access to adequate services in the areas of education, employment, economic and environmental development, health services, housing, law enforcement and the judicial system.
- Ensure that state government provides a diverse, inclusive and respectful employment environment, thus becoming an employer of choice providing equal access to government services and jobs.
- Promote equal employment opportunity practices throughout the state and within state government through the establishment of collaborative relationships with other state agencies and the business community.

Civil Rights Budget Highlights

- ◆ The \$12.8 million recommended budget provides continued support for initiatives which focus on intervention, partnerships, and educational support to obtain prompt, sure and effective enforcement of civil rights. The recommended budget is \$326,000 less than the original fiscal year 2004 budget. Reductions were achieved through administrative efficiencies.
- ◆ The Executive Recommendation increases funding for employee-related economic costs. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$829,900 in 2005. Therefore, a savings adjustment of \$333,200 is recommended to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation Department of Civil Rights (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$12,689.9	\$11,720.2	\$11,857.2
All Funds	\$13,623.9	\$12,654.2	\$12,791.2
	% Change - GF/GP	-7.6%	1.2%
	% Change - All Funds	-7.1%	1.1%

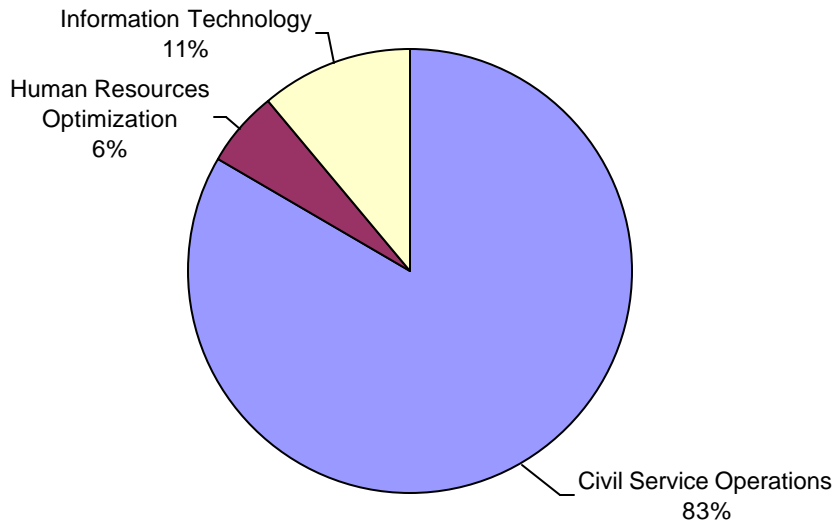
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Department of Civil Service

The Department of Civil Service provides human resource management services to attract and retain an effective state workforce. The department implements policies, rules, and procedures adopted by the Civil Service Commission. The Commission oversees classification of positions, rates of compensation, candidate qualifications, personnel transactions, conditions of employment, and professional development training.

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$35.3 million, \$7.8 million general fund.

Civil Service Provides State Workforce Services



Total: \$35.3 Million

Department Priorities

- Foster an environment that promotes continuous workforce learning and employee development.
- Maintain and enhance processes to ensure the state attracts, efficiently hires, and retains a diverse and highly competent workforce, resulting in a state workforce that values excellence and demonstrates integrity and creativity.
- Share human resource information with state departments as unified partners with a common vision.
- Continuously seek and use customer input in the planning, development and improvement of human resource services.
- Continuously develop and utilize leading-edge technology to facilitate efficient delivery of excellent human resource services.

Civil Service Budget Highlights

- ◆ The Governor recommends funding for the Department of Civil Service at \$35.3 million gross and \$7.8 million general fund in fiscal year 2005. These funds will be used to provide a statewide comprehensive and balanced human resource management operation. The recommended general fund budget is \$264,300 less than the original fiscal year 2004 appropriation. These reductions were achieved through administrative efficiencies.
- ◆ The Executive Recommendation increases funding for employee-related economic costs. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$1.8 million in 2005. Therefore, a budgetary savings adjustment of \$554,900 is recommended to partially offset these costs.
- ◆ The Governor's recommended budget includes a Human Resources Optimization initiative, which will create a new Human Resources Call Center within the Department of Civil Service. The optimization initiative will significantly streamline human resources operations throughout state government by maximizing the use of employee and manager self-service technology and centralizing call center operations under one roof. The initiative will result in an initial reduction of 104 positions in agency human resources offices. Thirty of these positions will be redeployed to staff the centralized call center, for a net reduction of 74 positions. Net savings are projected at \$2.1 million for fiscal year 2005 and \$24.9 million through fiscal year 2009.

Fiscal Year 2005 Governor's Recommendation
Department of Civil Service
(\$ in Thousands)

	FY03* Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$9,381.6	\$7,832.5	\$7,788.3
All Funds	\$33,566.8	\$31,633.8	\$35,262.9
	% Change - GF/GP	-16.5%	-0.6%
	% Change - All Funds	-5.8%	11.5%

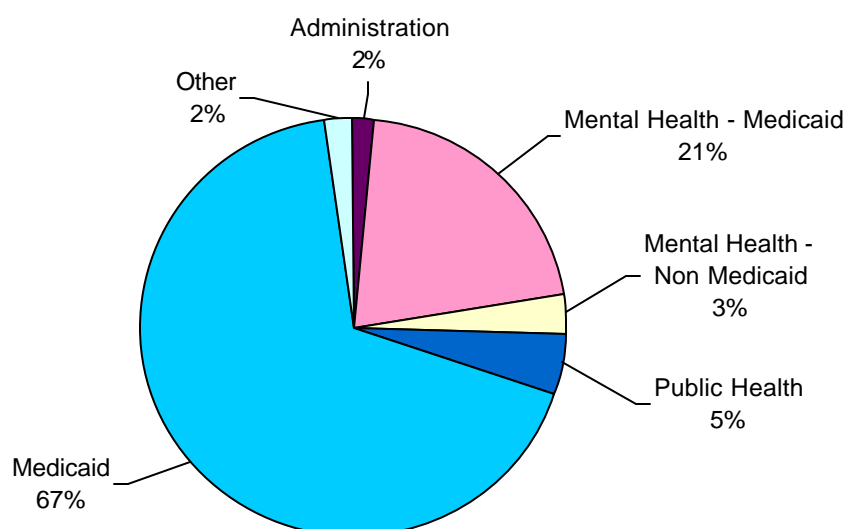
Program	GF/GP	All Funds
Civil Service Operations	\$6,967.6	\$29,345.2
Human Resources Optimization	\$0.0	\$2,000.0
Information Technology	\$820.7	\$3,917.7
* Adjusted for program transfer.		
Total FY 2005 Recommendation	\$7,788.3	\$35,262.9

Department of Community Health

The Department of Community Health (DCH) is responsible for health policy and management of the state's publicly funded health care systems. These programs include Medicaid health coverage for persons with limited incomes; mental health services for people who have a mental illness or developmental disability; services for individuals who need care for substance abuse; and services provided through local public health operations. The department also provides services to promote the independence and preserve the dignity of Michigan's elderly through the Office of Services to the Aging.

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$9.8 billion, of which \$2.5 billion is general fund.

Medicaid is Two-Thirds of the Community Health Budget



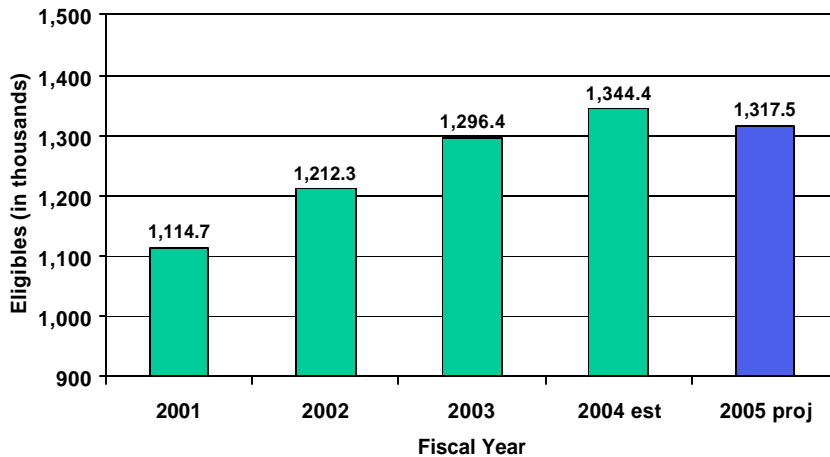
Department Priorities

- Preserve and maintain health care coverage and essential health care services for children and our most vulnerable elderly and disabled citizens.
- Through the work of the Mental Health Commission, establish a strategic plan to improve care for individuals with mental illness.
- Strengthen the public health infrastructure to respond to potential bioterrorism or other public health emergencies.
- Extend the length of time that low-income, elderly citizens are physically able to remain in their own homes.
- Promote increased physical activity, improved nutrition and tobacco cessation to improve the health of Michigan's citizens.

Community Health Budget Highlights

- ◆ Even with major fiscal challenges, Governor Granholm's fiscal year 2005 budget protects the most vulnerable populations by maintaining the Medicaid program.

Annual Average Number of Medicaid Eligibles



More than \$400 million in state funds have been added to the fiscal year 2005 Medicaid budget. This includes \$168 million to replace the loss of federal fiscal relief, \$150 million to replace other lost federal resources, and \$86 million for changes in the Medicaid caseload and the increased utilization of services. The primary funding source for these increases is cigarette tax revenue. The Executive Recommendation includes a 75 cent per pack increase to the cigarette tax that will be used to provide a stable funding source for Medicaid.

The total recommended fiscal year 2005 funding for the medical and long term care portions of the Medicaid program is \$6.5 billion, a 4 percent increase over fiscal year 2004. This funding allows the Michigan Medicaid program to provide quality health care services for over 1.3 million people each month. The fiscal year 2005 Executive Budget assumes that the number of Medicaid recipients will continue to grow steadily through the second quarter of fiscal year 2004, and then will level off as the economy recovers in fiscal year 2005.

- ◆ Health maintenance organizations (HMOs) are critical to the delivery of quality health care for Michigan's citizens, including over 900,000 Medicaid recipients. The federal government requires actuarially sound HMO rates and Governor Granholm's budget builds in \$124 million gross, \$53.7 million general fund, for this requirement. This cost increase will be financed through program reductions elsewhere in the Medicaid budget. These reductions, designed to minimize the negative impact on recipients, include savings in the Elder Prescription Insurance Coverage (EPIC) program that result from the newly-enacted Medicare discount drug card; returning Children's Special Health Care service delivery to fee-for-service; adjusting the quality assurance assessment program for HMOs; increasing third-party health insurance for children and increasing reimbursements from responsible third-party payers. In addition, the Governor proposes to increase vital records fees; eliminate payment for nursing home hospital leave days; and align emergency room physician reimbursement rates with other physician services. Lastly, the Governor proposes to create a new quality assurance assessment program for mental health residential providers, thereby saving state costs and providing an increase to these providers.

- ◆ The department recently received federal approval for the Adult Benefits Waiver, and is moving ahead with the submission of part two of this waiver. Adult Benefits Waiver II establishes a new inpatient hospital rate to support critical health services for this needy population while reducing Medicaid costs. The waiver is expected to save \$47 million general fund when fully implemented.
- ◆ The Governor's budget includes several pharmacy policy changes necessary to keep Michigan's Medicaid budget balanced. They include aligning Michigan's dispensing fee for prescription drugs with the amount paid by commercial insurance carriers, decreasing the amount paid for brand name and generic drugs, and implementing a mail order pharmacy program for maintenance drugs. Combined, these changes will save \$36.0 million gross, \$16 million general fund. The budget recommendation also includes language that permits expenditures related to these items to remain at fiscal year 2004 levels if a pharmaceutical quality assurance assessment program is enacted prior to October 1, 2004.

Mental Health

- ◆ The fiscal year 2005 budget continues a commitment of over \$2.3 billion for mental health services. Only 12 percent of mental health funding is now spent in state institutions, as the vast majority of services are provided in the community. Increases in mental health rates, to be phased-in over two years, will insure that payments are actuarially sound and will increase costs by \$29.3 million gross, \$12.7 million general fund.

"Few things affect the quality of our life and the quality of our work more than our good health."

Public Health

- ◆ Funding for public health programs totals \$464.7 million for fiscal year 2005. This funding recognizes the critical role that public health programs play in improving the overall health and well-being of Michigan residents. Included in this recommendation is a \$2 million federal grant increase for the federal bioterrorism initiative to improve disease surveillance and epidemiology capacity.

Governor Granholm, State of the State Message, January 27, 2004

In addition, \$30 million of new tobacco tax revenue will be dedicated to public health programs. The increased tobacco tax will be a deterrent to new young smokers and will provide a revenue stream to support smoking-related health programs.

Other Issues

- ◆ Reducing the cost of expensive prescription drugs for senior citizens and other low-income residents is an important component of

"We all benefit when we improve access to health care."

**Governor Granholm, State of the State Message,
January 27, 2004**

improving access to health care. At no cost to the state, the department will pursue a Michigan Prescription Discount Card that will pool purchasing power to allow many senior citizens and uninsured working people to reduce prescription costs by as much as 20 percent.

- ◆ Improving access to health care for families will be accomplished through the expanded Third Share Partnership, similar to programs now operating in Muskegon and Ingham counties. Under the program, the costs of limited health coverage are shared equally with employees, employers, and the state, with the state's share paid via a tax credit. This program helps small businesses offer low cost health insurance to their employees.
- ◆ Funds have been aligned throughout the department to reflect the transfer of health licensing and inspection programs and funding from the former Department of Consumer and Industry Services to the Department of Community Health, increasing the department's budget by \$39.7 million gross, \$4.8 million general fund.
- ◆ The Executive Recommendation includes an increase of \$54.9 million to fund employee-related economic increases. Due to current budgetary pressures, however, the state is unable to fully fund these increases in employee salaries, insurance, and pension costs. Therefore, the budget includes a savings adjustment of \$13.0 million to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation
Department of Community Health
(\$ in Thousands)

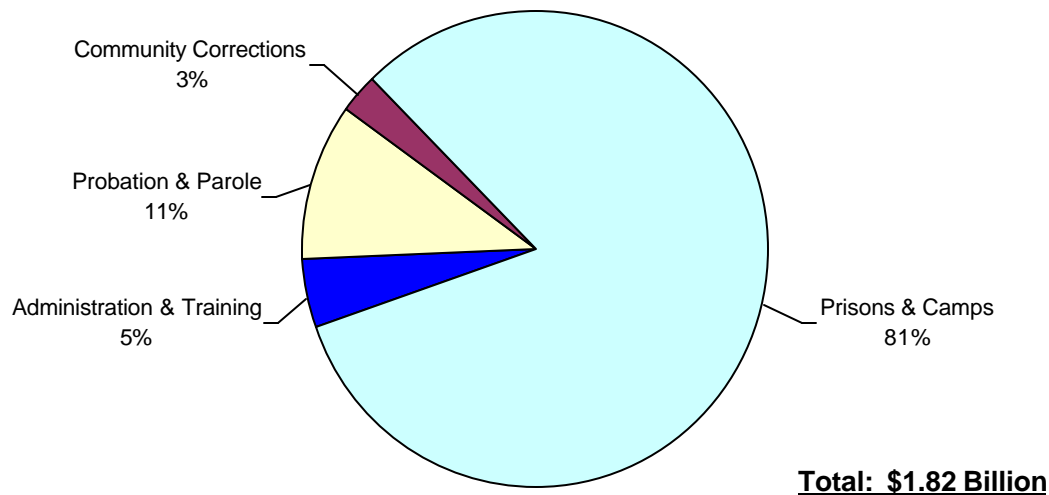
	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$2,386,850.6	\$2,657,800.5	\$2,476,078.8
All Funds	\$9,833,234.1	\$9,751,028.7	\$9,802,931.2
	% Change - GF/GP	11.4%	-6.8%
	% Change - All Funds	-0.8%	0.5%

Program	% of Total	GF/GP	All Funds
Medicaid		\$1,179,831.0	\$6,621,099.5
Medicaid Fee for Services			
Medicaid Managed Care Services			
Medicaid Adult Benefits Waiver			
Children's Special Health Care Services			
Mental Health - Medicaid		\$806,698.9	\$2,028,324.6
Mental Health - Non-Medicaid		\$313,352.4	\$313,352.4
Public Health		\$62,015.8	\$464,658.0
Administration		\$62,900.7	\$158,708.1
Other		\$51,280.0	\$216,788.6
Office of Drug Control Policy			
Crime Victim Services			
Office of Services to the Aging			
Information Technology Services			
Health Regulatory Systems			
* Adjusted for program transfers.			
Total FY 2005 Recommendation		\$2,476,078.8	\$9,802,931.2

Department of Corrections

The Department of Corrections performs an important role in promoting public safety for the residents of the State of Michigan by providing custody and care for incarcerated felons and maintaining oversight and supervision of parolees and felony probationers. The Governor's proposed budget for fiscal year 2005 recommends total funding of \$1.82 billion, of which \$1.74 billion is general fund.

Over 80% of Costs are for Prison Operations



Department Priorities

- Imprison Michigan's most dangerous criminals.
- Work collaboratively with law enforcement to apprehend Michigan's most dangerous fugitives.
- Implement the Michigan Prisoner Reentry Initiative that will reduce the state's costly recidivism rate by better preparing inmates for release and improving the parole system.
- Expand the use of local sanctions in order to allow communities to determine appropriate sanctions for low risk probationers and parolees who would otherwise be sent to prison.
- Work with the Legislature to revise Michigan's Sentencing Guidelines so that more efficient use of state and local resources can be targeted for higher risk felons.
- Work cooperatively with the Judiciary on the efficient use of drug courts for alcohol and drug addicted felons who would otherwise be sentenced to prison.

Corrections Budget Highlights

- ◆ The number of prisoners in state correctional facilities increased by over 18,000 from 1990 through 2002—an increase of over 58 percent. Through successful early implementation of the department's Five Year Plan to Control Prison Growth, started in 2003, the number of prisoners declined for the first time in 20 years.
- ◆ The early successes of the Five Year Plan cannot be sustained without continued action. Governor Granholm proposes modifications in existing sentencing guidelines to help delay the need to build more prison beds. The recommended changes, which do not alter the Truth In Sentencing law, will bring probation violators into the existing sentencing guidelines structure and make adjustments to sentencing guidelines for certain crime classes. The Executive Recommendation includes an adjustment of \$2.9 million in local reinvestment funds to help achieve the desired outcomes of the sentencing changes. The additional funding, to be allocated through Community Corrections programs, will help local governments fund needed jail space and community-based programs.
- ◆ Benefits from the Five Year Plan will allow one prison to close in 2004. Western Wayne Correctional Facility near Plymouth will be closed, with the female prisoners in the facility transferred to another facility in Ypsilanti which will be converted to a female prison. Western Wayne Correctional Facility, which is located on the grounds of the former Detroit House of Corrections, is an old facility that is comparatively expensive to operate as a minimum security prison. The newer Huron Valley Center is currently underutilized and operations there will be optimized by this change.
- ◆ The Executive Recommendation includes over \$28.5 million in savings for the Department of Corrections. These savings are in addition to an unspecified budgetary savings adjustment of \$14.9 million in the current budget, bringing the total savings for the department to almost \$45 million. The Executive Budget proposes a combination of strategies to achieve these savings including the closure of the Western Wayne women's correctional facility, security adjustments through increased use of technology, revisions to the inmate transportation system, health and dental efficiencies, continuation of the hiring freeze, consolidation of various functions, and technical adjustments to recognize administrative savings already implemented in the current year.
- ◆ Female prison bed capacity reached a critical level by the end of 2003. A significant contributing factor for female bedspace is the lack of sufficient reintegration plans for women who are eligible for parole. The department has designed a female parolee residential program to improve success on parole. The Executive Recommendation includes an adjustment of \$3.5 million to fund 154 beds in privately operated community residential programs for female parolee placement. This initiative will avert the need to construct additional prison beds for female inmates.

- ◆ A key component of the mission of the Department of Corrections is the supervision of felony offenders through probation and parole oversight in the community. The department currently supervises over 73,000 such offenders in Michigan through its Field Operations Administration. During fiscal year 2003 the caseload increased by over 2,100 offenders. The fiscal year 2005 Executive Recommendation includes an adjustment of \$2.3 million to hire additional parole and probation staff to safely supervise probationers and parolees in the community.
- ◆ Included in the fiscal year 2005 Executive Recommendation is an adjustment of \$5.9 million for the testing and treatment of Hepatitis C within the prisoner population. The department is currently conducting a study to determine the incidence of this chronic blood-borne disease in the prisoner population. Nationally, the infection rate for prisoners is estimated to be much higher than the population at large. The department will complete its intake-based study by April 1, 2004. Once the study is complete and funding is appropriated, a protocol for testing and treatment will commence.
- ◆ The fiscal year 2005 Executive Recommendation includes adjustments for several other prisoner health care issues. An adjustment of \$1.2 million is made for increased pharmaceutical costs. An adjustment reflecting operational efficiencies in the department's prisoner medical and dental care program will yield savings of \$1.0 million. Also included in the health care area is the removal of one-time funding for endoscopy equipment, saving \$187,400.
- ◆ The Executive Recommendation replaces \$18.0 million in federal Violent Offender Incarceration/Truth In Sentencing (VOI/TIS) funding with general fund to continue operation of the 480 bed Youth Correctional Facility. Federal funding for this program has ended. Over \$100 million in VOI/TIS funding has been used for various capital outlay prison construction projects and operation of the Youth Correctional Facility since fiscal year 2000.
- ◆ Included in the Executive Recommendation is an adjustment of \$1.1 million for a new employee school. The department currently employs more than 9,000 corrections officers who maintain security for the department's prisons, camps, technical rule violation centers, and corrections centers. The funding will train up to 277 new recruits to staff new prisoner beds opening during 2004 and 2005, and to fill corrections officer positions that become vacant due to retirement and normal attrition.
- ◆ Employing approximately one-third of the state government workforce, the Department of Corrections is the largest department in terms of staffing. Employee-related economic adjustments totaling \$156.8 million gross, \$152.4 million general fund are included in the Executive Recommendation for projected increases in salary and wages, insurance, and retirement costs. Due to the state's current revenue problems, the recommended budget also includes a savings adjustment of \$46.3 million to partially offset these employee-related economic costs.

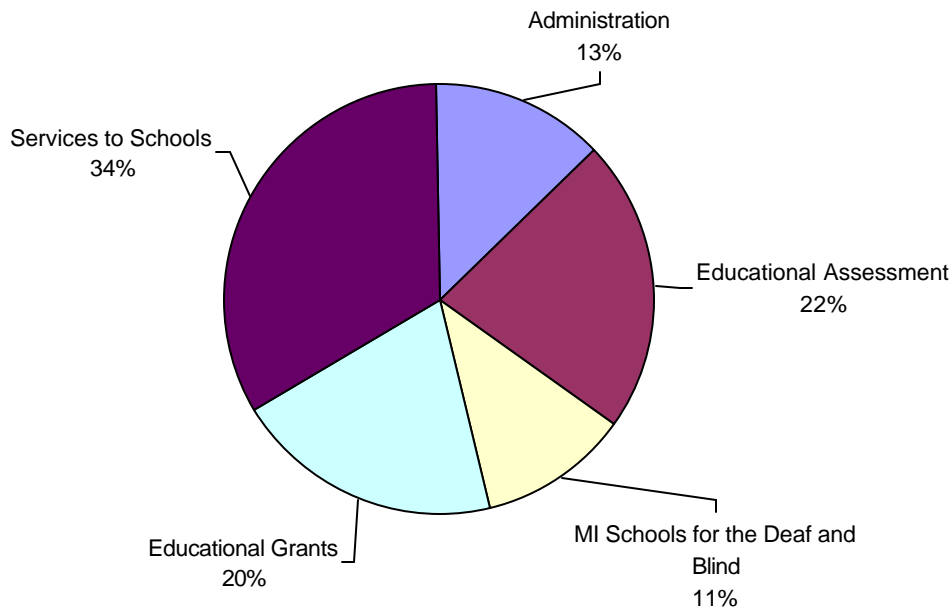
Fiscal Year 2005 Governor's Recommendation Department of Corrections (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$1,599,803.2	\$1,609,272.3	\$1,742,962.5
All Funds	\$1,685,406.8	\$1,705,772.5	\$1,824,618.9
	% Change - GF/GP	0.6%	8.3%
	% Change - All Funds	1.2%	7.0%

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Department of Education

The Executive Recommendation for fiscal year 2005 for the Department of Education continues to focus funding on improving student achievement. Funding for the department supports costs associated with administering the School Aid Act and federal programs, early childhood intervention programs, development and implementation of statewide assessments, providing technical assistance to local school districts, teacher preparation and certification, and oversight of the Michigan Schools for the Deaf and Blind. Total recommended funding for the Department of Education is \$115.6 million, of which \$28.5 million is general fund.

Funding Assists Schools In Educating Children



Total: \$115.6 Million

Department Priorities

State Board of Education Strategic Goal: Attain substantial and meaningful improvement in academic achievement for all students, with primary emphasis on students in high priority schools that have not achieved adequate yearly progress.

- Increase the number of children prepared to succeed when they enter school.
- Decrease the number of schools not meeting adequately yearly progress.
- Increase achievement of student populations in high priority schools.
- Reduce the number of students who drop out of school.
- Provide training for experienced teachers to serve as mentors for new teachers in high priority schools.
- Increase the number of Michigan teachers who are highly qualified as defined by *No Child Left Behind*.
- Increase participation in the school breakfast, lunch and summer food programs to assure that Michigan children are healthy and ready to learn.

Education Budget Highlights

- ◆ The Governor's budget for the department includes the transfer of the Michigan Educational Assessment Program from the Department of Treasury to the Department of Education. Student test results are components of both the Education YES! report cards and the federal Adequate Yearly Progress (AYP) requirement. Total funding for the Michigan Educational Assessment Program Office is \$25.0 million, financed with Merit Award Trust Funds and federal *No Child Left Behind* funding.
 - ◆ The Governor's Recommendation includes \$150,000 for the Limited License to Instruct Pilot Project. In partnership with Wayne State University, the department is implementing a pilot project to help teachers meet the federal *No Child Left Behind* certification requirements.
 - ◆ The Governor's *Project Great Start* continues to focus resources on early childhood intervention programs, including \$12.3 million to support the School Readiness preschool program for 4-year-olds. In addition, with the assistance of the Department of Education and corporate sponsors, the Governor has expanded the content of the Read, Educate, and Develop Youth (R.E.A.D.Y.) kits, which provide early childhood materials and activities to enhance a child's capacity to learn. This program has become a national model and has been awarded the prestigious Council of State Governments Innovation Award.
-
- "Education does not start on Monday morning when the eight o'clock bell rings, and it does not end when our children get on the bus at three. We must bring a holistic approach to education in Michigan. That means creating an atmosphere that breeds success in school, out of school, and in the critical years before a child ever enters a classroom."*
- Governor Granholm, State of the State Message, February 2003**
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- ◆ The Governor's recommendation also provides state grant funding of \$10.0 million for the School Breakfast Program. During 2004, approximately 37.8 million nutritious breakfasts will be served to children so that they are healthy and ready to learn.
 - ◆ U.S. Department of Education federal grant funding has been reduced by \$18.3 million, the majority of which is due to the discontinuation of the Urgent School Renovation program by the federal government.
 - ◆ Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$4.1 million in 2005. Therefore, a savings adjustment of \$1.1 million is recommended to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation
Department of Education
(\$ in Thousands)

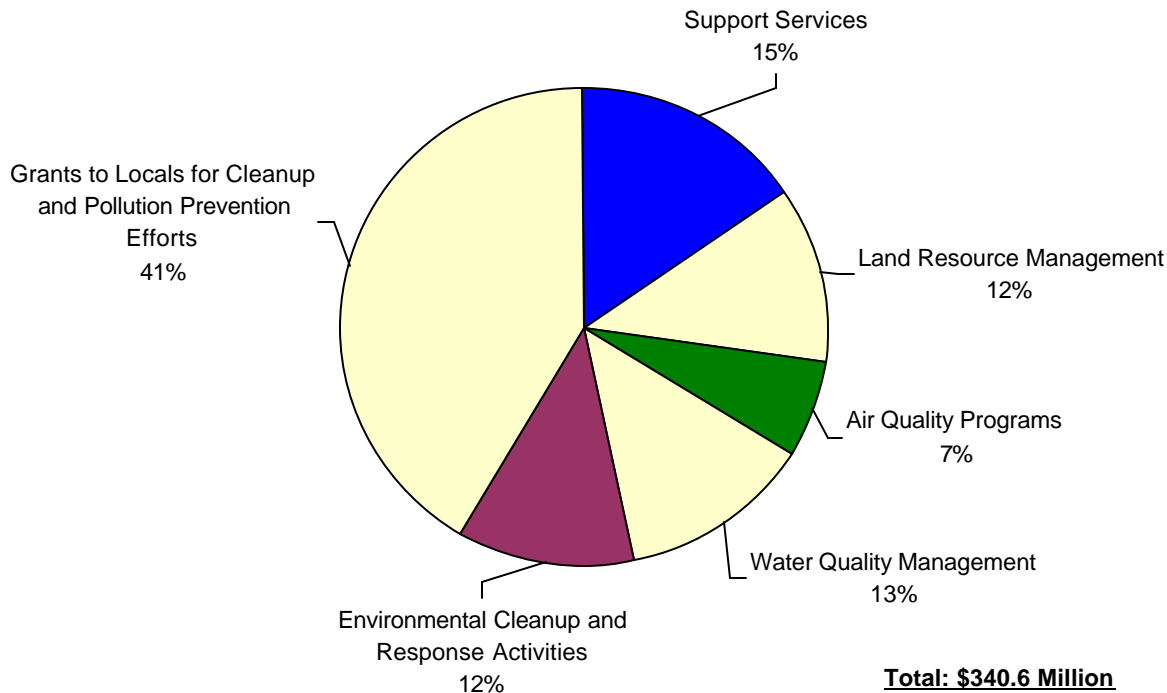
	*FY03 Appropriation	*FY04 Current Law	FY05 Recommended
GF/GP	\$29,018.2	\$29,059.7	\$28,454.3
All Funds	\$242,787.7	\$135,681.7	\$115,553.4
	% Change - GF/GP	0.1%	-2.1%
	% Change - All Funds	-44.1%	-14.8%

Program	GF/GP	All Funds
Services to Schools		
School Improvement Operations	\$73.1	\$14,081.5
Special Education Operations	\$211.3	\$10,930.1
School Support Operations	\$396.8	\$5,647.9
Professional Preparation Services	\$0.0	\$5,432.9
Early Childhood and Family Services	\$937.2	\$3,680.6
Grants to Schools		
School Readiness Grants	\$12,250.0	\$12,250.0
School Breakfast Grants	\$10,025.0	\$10,025.0
Urgent School Renovation Grants	\$0.0	\$1,000.0
National Board Certification	\$0.0	\$100.0
Christa McAuliffe Grants	\$0.0	\$94.8
Educational Assessment Services	\$0.0	\$24,968.9
Michigan School for the Deaf and Blind		
Michigan Schools for the Deaf and Blind	\$0.0	\$10,652.6
Lansing, Michigan School for the Blind Former Site	\$0.0	\$1,821.1
Administrative Support Services		
Central Support Services	\$1,647.3	\$5,548.3
Office of the Superintendent	\$1,313.7	\$3,226.9
School Finance/School Law	\$765.2	\$2,473.7
Information Technology	\$834.7	\$2,540.6
Grants Administration	\$0.0	\$1,078.5
* Adjusted for program transfers		
Total FY 2005 Recommendation	\$28,454.3	\$115,553.4

Department of Environmental Quality

The Department of Environmental Quality is committed to restoring and enhancing Michigan's environment for the protection of public health and the preservation of our natural resources. Acting as chief steward for air, land, and water quality, the department focuses on environmental monitoring, permitting, enforcement, and innovative partnerships that add to the quality of life enjoyed by residents and visitors alike. The Governor's proposed budget for fiscal year 2005 recommends total funding of \$340.6 million, of which \$38.2 million is general fund.

Over Half of DEQ's Budget is Dedicated to Cleanup Projects



Department Priorities

- Protect the health and welfare of Michigan's citizens by reducing the amount of air pollutants.
- Protect, conserve, and enhance the critical natural water areas of the state, such as wetlands, inland lakes and streams, Great Lakes bottomlands and coastal areas.
- Improve the environment through continued cleanup efforts on contaminated sites and brownfield redevelopment sites.
- Assure that surface water quality standards are met to protect Michigan's waters.
- Protect the environment by adopting a multifaceted approach to reduce waste disposal.
- Provide incentive and service programs, as well as partnerships to promote environmental stewardship.

Environmental Quality Budget Highlights

The Governor's recommended fiscal year 2005 budget maintains support of over \$340 million for critical environmental protection programs. The fiscal year 2005 budget recommends funding to support the national multi-hazard flood map modernization program. In addition, the Governor proposes a fiscal year 2004 supplemental of over \$50 million to appropriate available Clean Michigan Initiative (CMI) bond funds for critical environmental projects.

- ◆ The fiscal year 2005 Executive Recommendation contains \$475,000 in Federal Emergency Management Agency resources for first-year support of a floodplain map modernization program. This five-year federal program is intended to assist states with floodplain management by updating old maps, modernizing current maps, and creating new maps for un-mapped high priority areas.
- ◆ Approximately \$90.0 million of federal grant resources are made available annually to support the State Revolving Fund and the Drinking Water Revolving Fund, which provide low interest loans to local units of government for wastewater and drinking water infrastructure improvement projects. In order to receive these monies, the state must provide roughly 20 percent in corresponding match resources, which have typically been general fund revenues. For fiscal year 2005, the Governor proposes to issue \$16.3 million in revenue bonds as the state match for the revolving funds. As a result, a corresponding savings of \$16.3 million general fund will be realized without compromising available loan capacity to local units of government.
- ◆ The fiscal year 2005 recommendation contains no new cleanup and redevelopment site listings, allowing staff to focus efforts on finishing existing cleanup projects totaling over \$55.0 million in prior year unspent appropriations.
- ◆ The Aquifer Protection and Dispute Resolution program was created by P.A. 177 of 2003 and funded in fiscal year 2004 with \$200,000 general fund, along with \$500,000 in one-time restricted fund support to seed an Aquifer Protection Revolving Fund. This program provides a mechanism for homeowners and adjacent high capacity well users to settle disputes about groundwater usage levels. For fiscal year 2005, the Governor continues operational support for the program at the current level of \$200,000 general fund, and recommends the appropriation of reimbursements from settled disputes to maintain the revolving fund component of the program.

- ◆ The fiscal year 2005 Executive Budget removes several one-time items funded with restricted monies including \$13.2 million of re-appropriated multi-year work project resources in P.A. 237 of 2003; \$1.0 million for a statewide groundwater inventory and mapping project; \$700,000 for dredging of canals; and \$150,000 for a Saginaw area study of groundwater use.
- ◆ The Executive Budget increases funding in order to pay for employee-related economic costs, including a significant increase in retirement costs due to pension investment losses. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs for staff salaries, insurance and retirement, which are estimated to increase by \$10.3 million in 2005. Therefore, an employee-related savings adjustment of \$3.9 million is recommended to partially cover these costs.
- ◆ P.A. 252 of 2003 amended the Clean Michigan Initiative (CMI) Bond Fund to realign bond authorization and increase the allocation for environmental response activities, for brownfield redevelopment, and for grants to local units of government. The Governor recommends a fiscal year 2004 supplemental of \$54.5 million for new Clean Michigan Initiative (CMI) projects consistent with these statutory changes.

**Fiscal Year 2005 Governor's Recommendation
Department of Environmental Quality
(\$ in Thousands)**

	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$66,653.2	\$53,580.8	\$38,152.3
All Funds	\$403,999.7	\$371,407.4	\$340,608.0
	% change - GF/GP	-19.6%	-28.8%
	% change - All Funds	-8.1%	-8.3%

Program	GF/GP	All Funds
Grants to Locals for Cleanup and Pollution Prevention Efforts	\$1,181.5	\$141,774.0
Support Services	\$12,347.1	\$53,001.0
Water Quality Management	\$10,542.4	\$43,732.1
Land Resource Management	\$7,496.7	\$40,276.4
Environmental Cleanup and Response Activities	\$0.0	\$39,417.7
Air Quality Programs	\$6,584.6	\$22,406.8
Total FY 2005 Recommendation	\$38,152.3	\$340,608.0

Executive Office

The Executive Office is the Office of the Governor. The budget provides funding for the Governor and her immediate staff, who assist her in executing her constitutional responsibilities as chief executive of the State of Michigan. The Executive Office also includes funding for the Lieutenant Governor's office. The Lieutenant Governor performs gubernatorial functions in the Governor's absence, presides over the Senate, serves on the State Administrative Board and represents the Governor at selected local, state and national meetings.

One of Governor Granholm's goals is for government to be accessible and responsive to the needs of citizens. To this end, she created a new Constituent Services Division that answers thousands of letters, calls, and e-mails, and works one-on-one with individuals who need help cutting through red tape or resolving other problems. Every month the Governor holds office hours so that citizens can meet with her directly to share their ideas and concerns.

Citizens who would like to speak to a specialist for assistance should visit the Constituent Services Division during regular business hours: 9:00 a.m. to 5:00 p.m., Monday through Friday, or contact the office by calling (517) 335-7858. Citizens may also e-mail the Governor through the State of Michigan Web site: www.michigan.gov.

The recommended fiscal year 2005 budget for the Governor's Office totals \$4.9 million.

Fiscal Year 2005 Governor's Recommendation Executive Office (\$ in Thousands)	
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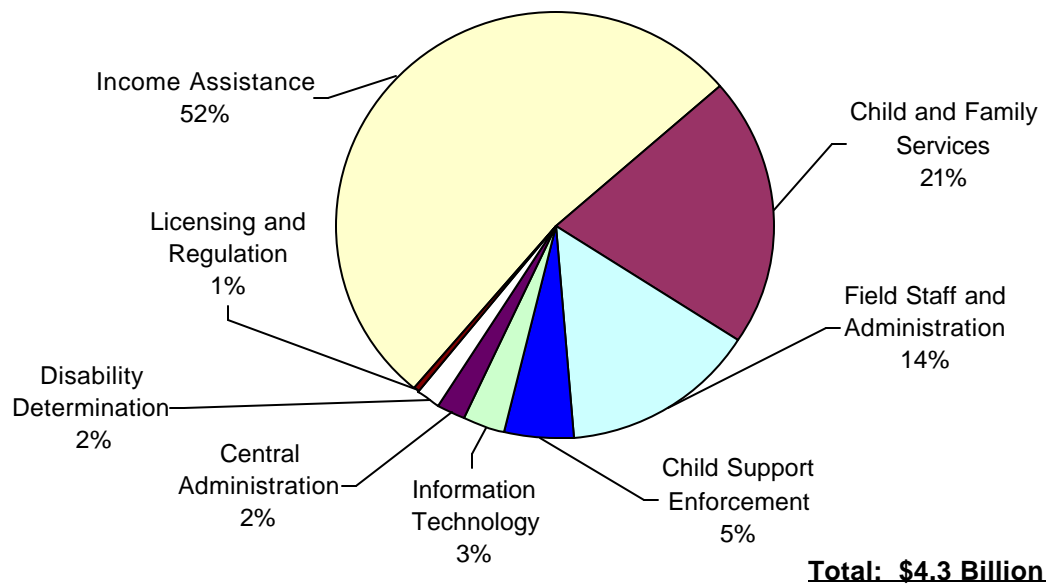
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$5,021.5	\$4,859.5	\$4,859.5
All Funds	\$5,021.5	\$4,859.5	\$4,859.5
	% Change - GF/GP	-3.2%	0.0%
	% Change - All Funds	-3.2%	0.0%

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Family Independence Agency

The Family Independence Agency (FIA) assists individuals and families to meet financial, medical, and social needs; helps people move toward self-sufficiency; works to prevent abuse, neglect, and exploitation of children and vulnerable adults through direct services; and regulates and licenses adult and child care agencies, facilities, and homes. FIA directs the operations of income assistance and service programs through a network of Family Independence Agency offices in every county in Michigan. The Governor's proposed budget for fiscal year 2005 recommends total funding of \$4.3 billion, of which \$1.1 billion is general fund.

Over Half of the Family Independence Agency Budget Supports Income Assistance Programs for Low Income Families and Individuals



Department Priorities

- **Safety:** Protect children and vulnerable adults including those receiving care from licensed agencies, facilities and homes.
- **Well Being:** Meet basic needs for food, shelter, health care, housing and utilities.
- **Permanency:** Ensure the integrity of families, and stability for children in their living situations.
- **Independence:** Offer temporary assistance to needy families while helping them achieve self-sufficiency.
- **Program Integrity:** Assure individuals and families receive benefits and services to which they are entitled.

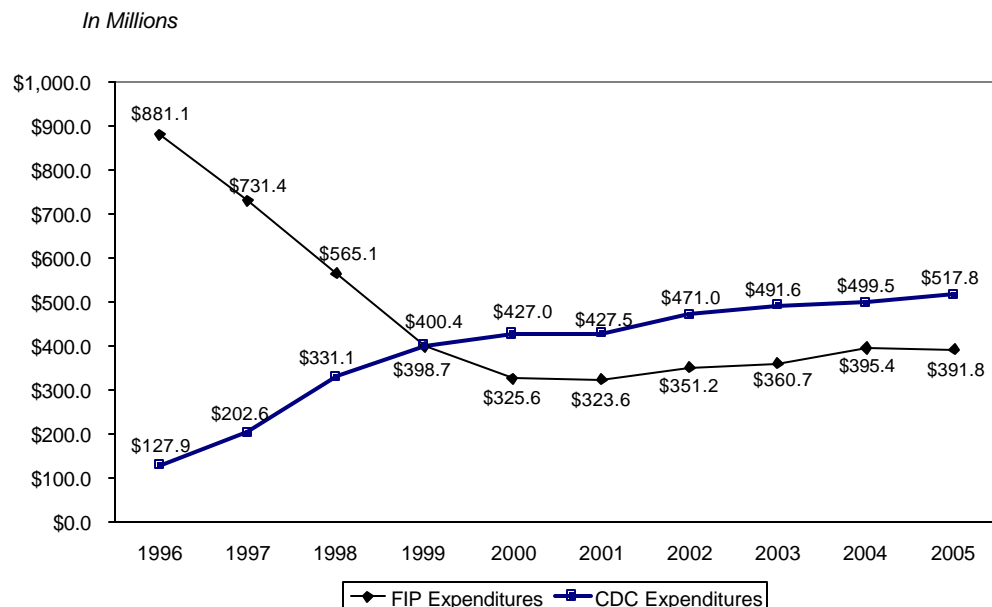
Family Independence Agency Budget Highlights

The fiscal year 2005 recommendation for the Family Independence Agency is \$4.3 billion, an increase of \$379.2 million, or 9.6 percent, over fiscal year 2004 appropriations. Almost 70 percent of the increase (\$266.4 million) is related to increases in the federally-funded Food Assistance Program, partly driven by a federal waiver that will extend eligibility for food benefits to 75,000 low-income adults. The remainder of this increase is primarily attributable to caseload increases.

Income Assistance Programs

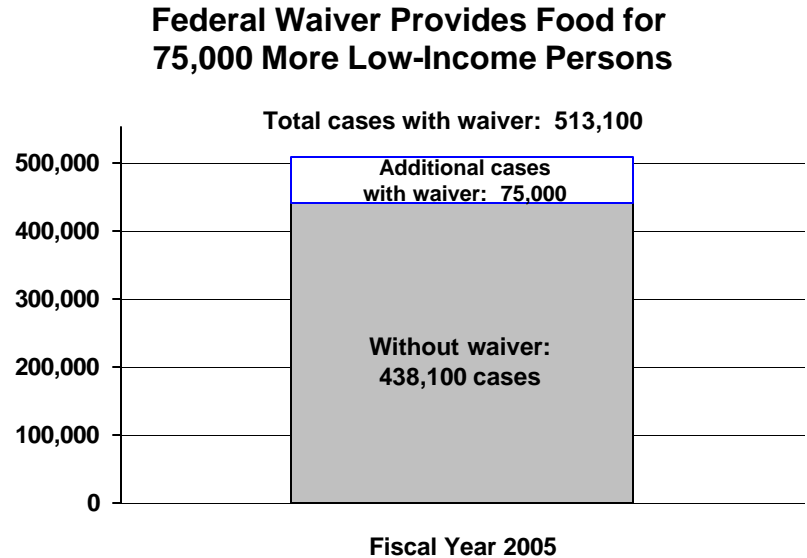
- ◆ **Family Independence Program.** The budget recommends \$391.8 million for the Family Independence Program, supporting 78,500 cases that include 157,000 children. Caseloads are expected to continue to rise through the third quarter of fiscal year 2004, followed by a slight decline in the fourth quarter that continues through fiscal year 2005 as the economy recovers. Funding for the children's clothing allowance is increased by \$3.1 million to cover all children (rather than just those who are attending school) and to boost the annual payment from \$40 to \$50 per child.

Decreases in Family Independence Program Expenditures Have Been Reinvested in Child Day Care Services



- ◆ **Child Day Care.** The Governor's budget recommends funding of \$517.8 million to support safe, quality child day care for qualifying families, anticipating a caseload of 70,500 that includes 134,000 children.
- ◆ **State Disability Assistance.** The Governor's budget maintains the State Disability Assistance program as a safety net for disabled adults who are unable to work, but who do not qualify for federal Social Security Income benefits. This program's \$31.6 million budget funds a caseload of 10,300 for fiscal year 2005.

- ◆ **Food Assistance Program.** Funding of nearly \$1.1 billion in federal funds is recommended for the Food Assistance Program to increase the food purchasing power of low-income households. This includes an additional \$127.0 million for 75,000 adult recipients who will be eligible for Food Assistance when the state receives approval of a waiver recently submitted to the United States Food and Nutrition Service. In recognition of the current relatively high unemployment levels, the waiver offers extended benefits to childless adults who are unable to find work. Currently, adults in this category are generally restricted to three months of food benefits every three years.



- ◆ **State Emergency Relief and Home Energy and Weatherization Assistance.** Federal funding totaling \$132.4 million is anticipated to support the home heating credit, energy-related crisis intervention payments, and weatherization activities to make homes more energy efficient, while \$41.4 million in federal and state funds are recommended for emergency assistance to individuals and families.

"This waiver would enable thousands of low-income persons to buy more food. Not only is it our mission to uplift those Michigan families who are struggling, it's simply the right thing to do."

Marianne Udow, Director, Family Independence Agency, January 16, 2004

Services Programs

- ◆ **Children's Foster Care.** Children who have been placed in out-of-home care because they cannot be protected from abuse and neglect in their own homes are served through the Children's Foster Care and Child Care Fund programs. This budget includes \$394.8 million to provide care, supervision, and a home until children are either returned to their birth parents or adopted. Services provided through family preservation initiatives assist in reunifying families whenever possible.
- ◆ **Adoption Subsidy Program.** This budget finances the Adoption Subsidy program at a funding level of \$239.2 million, including \$18.4 million for anticipated caseload increases due to the department's continued successful efforts to find permanent homes for special needs children who are eligible for adoption.

- ◆ **Family Resource Centers.** Across the state, in high-priority elementary and middle schools, 20 full-time Family Resource Centers have been opened to better serve and support families in need of human services. One or more

"In just the past few months these Family Resource Centers have begun to make a dramatic difference to children, families and our schools. This year we'll open at least twenty more. This is no longer a pilot; this is a movement."

**Governor Granholm, State of the State Message,
January 27, 2004**

Family Independence Agency specialists work in each center to identify and prevent problems and work with students, their families, and local service agencies to remove non-educational barriers to school performance. In fiscal year 2005, within existing resources, at least 20 more Family Resource Centers will be opened to improve the lives of Michigan's children and families.

- ◆ **Juvenile Justice Services.** The Governor's budget recommends closure of the Sequoyah Center at the W.J. Maxey Boys Training School, saving \$1.1 million gross, \$557,600 general fund, in fiscal year 2005. Closure of Sequoyah Center is part of a planned replacement of outdated high security treatment beds following the 2002 opening of Maxey's Woodland Center, a 200-bed state-of-the-art advanced treatment facility. The sixty youth currently housed at Sequoyah Center will be placed at Woodland Center, other state-operated residential facilities, private facilities, or in community settings.

Other Budget Highlights

- ◆ **Child Support Enforcement System.** \$56.0 million in ongoing support is recommended for the maintenance and operation of the Michigan Child Support Enforcement System, which has been federally certified and successfully implemented in all 83 counties. Full implementation of this system gives every county access to the latest and best tools available for locating parents and enforcing child support orders, with the goal of getting children and families the support to which they are entitled.
- ◆ **Transfer of Licensing and Regulation Functions.** Executive Order 2003-18 transferred the licensure and regulation of adult and child care agencies, facilities and homes to the Family Independence Agency from the Department of Consumer and Industry Services, effective December 7, 2003. With a budget of \$23.0 million, the Office of Children and Adult Licensing will work to insure the protection of vulnerable children and adults by regulating adult foster care homes, homes for the aged, child day care homes and centers, child caring institutions, child placing agencies, and camps.
- ◆ **Employee-Related Economic Costs.** The Executive Recommendation includes an increase of \$62.7 million to fund employee-related economic increases. Due to current budgetary pressures, however, the state is unable to fully fund these increases in employee salaries, insurance and pension costs. Therefore, the budget includes a savings adjustment of \$24.2 million to help offset these costs.

**Fiscal Year 2005 Governor's Recommendation
Family Independence Agency
(\$ in Thousands)**

	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$1,121,677.4	\$1,107,571.3	\$1,138,331.4
All Funds	\$4,079,540.4	\$3,957,242.4	\$4,336,399.4
	% Change - GF/GP	-1.3%	2.8%
	% Change - All Funds	-3.0%	9.6%

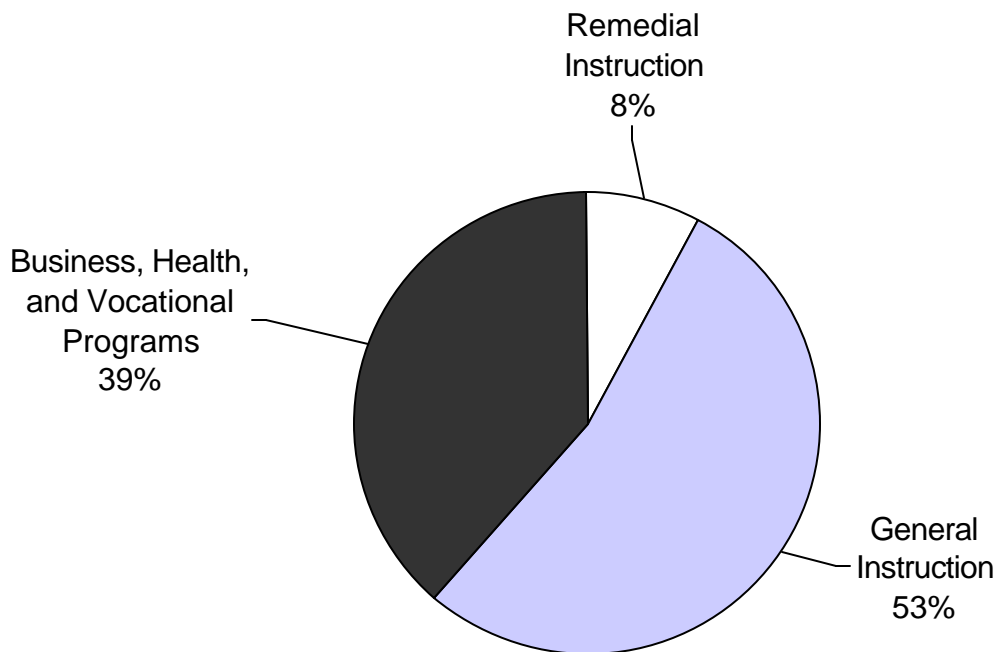
Program	GF/GP	All Funds
Income Assistance		
Food Assistance Program	\$0.0	\$1,099,429.3
Day Care Services	\$187,744.2	\$517,773.3
Family Independence Program	\$171,504.0	\$391,810.1
Energy and Weatherization Assistance	\$0.0	\$132,408.5
SSI State Supplementation	\$58,899.1	\$58,899.1
State Emergency Relief	\$27,374.7	\$41,408.2
State Disability Assistance	\$26,538.3	\$31,643.1
Child and Family Services		
Purchased Care and Supervision of Youth	\$192,391.9	\$407,298.8
Adoption Services and Subsidies	\$95,618.9	\$253,377.2
Juvenile Justice Services	\$35,532.3	\$81,429.8
Family Preservation and Prevention Services	\$243.8	\$66,545.9
Community Services Block Grant	\$0.0	\$24,382.7
Employment and Training Support Services	\$775.1	\$16,629.1
Domestic Violence and Rape Prevention Services	\$1,923.5	\$16,295.6
Refugee Assistance	\$0.0	\$12,661.1
Other Child and Family Services	\$5,700.1	\$20,847.5
Field Staff and Administration	\$230,298.9	\$619,920.4
Child Support Enforcement	\$18,201.3	\$223,124.0
Information Technology	\$36,301.1	\$130,795.6
Central Administration and Support	\$35,394.0	\$90,007.3
Disability Determination Services	\$2,780.6	\$76,665.0
Licensing and Regulation	\$11,109.6	\$23,047.8
* Adjusted for program transfers.		
Total FY 2005 Recommendation	\$1,138,331.4	\$4,336,399.4

Community Colleges

Michigan's 28 community colleges provide residents with affordable access to postsecondary education opportunities. These institutions play a critical role in preparing the well-trained and technologically-skilled workforce vital to Michigan's economy. Community colleges are governed by locally elected boards and receive revenues from property taxes in addition to state aid and student tuition. The colleges offer occupational training, professional and personal development, and preparation for continued study at four-year colleges and universities. Approximately 446,000 students attend community colleges, an increase of nearly 15 percent since 1999.

The Governor's proposed budget for fiscal year 2005 totals \$285.7 million. In addition, the Capital Outlay budget provides funding of \$16.5 million for State Building Authority rent obligations for community college buildings constructed in recent years.

Community College Enrollment by Instructional Activity



Students enroll in occupational programs and to prepare for further education at a 4-year institution

Community Colleges Budget Highlights

- ◆ The fiscal year 2005 budget includes \$263.0 million in direct aid for community colleges. State aid represents approximately 28 percent of the \$1.1 billion in total funding for community colleges; the balance of funding comes primarily from local property taxes and tuition.
- ◆ Tuition levels must be kept low in order to make college affordable for all who enroll. In December 2003, the Governor and the Legislature agreed to a fiscal year 2004 spending reduction plan that reduced community college spending by 4.4 percent. Those community colleges that pledge not to increase tuition and fees for the remainder of this academic year, and not to increase 2004-2005 tuition and fees above inflation, will have 3 percent of their base funding restored. Those community colleges that do not accept the tuition restraint pledge will have their state aid reduced by another 3 percent.
- ◆ In addition to direct support for college operations, the state will subsidize pension contribution rates charged to community colleges, saving \$7.2 million in retirement costs that otherwise would be charged to them.

FY 2005 Community College Funding	(\$ in Thousands)	
	Operations	Tuition Restraint
Alpena Community College	\$4,566.7	\$295.8
Bay de Noc Community College	4,415.1	286.0
Delta College	12,348.1	800.0
Glen Oaks Community College	2,071.7	134.2
Gogebic Community College	3,777.4	244.8
Grand Rapids Community College	15,531.8	1,006.2
Henry Ford Community College	18,928.6	1,226.2
Jackson Community College	10,478.0	678.8
Kalamazoo Valley Community College	10,691.0	692.6
Kellogg Community College	8,399.6	544.2
Kirtland Community College	2,549.3	165.2
Lake Michigan College	4,520.7	292.8
Lansing Community College	26,859.5	1,740.0
Macomb Community College	28,658.3	1,856.4
Mid Michigan Community College	3,823.0	247.6
Monroe County Community College	3,719.4	241.0
Montcalm Community College	2,690.4	174.2
C.S. Mott Community College	13,579.6	879.8
Muskegon Community College	7,727.9	500.6
North Central Michigan College	2,617.5	169.6
Northwestern Michigan College	7,885.6	510.8
Oakland Community College	18,077.9	1,171.2
St. Clair County Community College	6,055.4	392.2
Schoolcraft College	10,610.0	687.4
Southwestern Michigan College	5,695.5	369.0
Washtenaw Community College	10,783.7	698.6
Wayne County Community College	13,940.0	903.0
West Shore Community College	1,985.8	128.6
Total	\$262,987.5	\$17,036.8

- ◆ The recommended budget includes continuation funding of \$3.3 million to support the At-Risk Student Success Program. This program provides services for approximately 58,700 students who are academically at-risk to help them overcome a wide range of obstacles to success.
- ◆ The recommended budget includes \$2.4 million to reimburse colleges that lose local property tax revenue as the result of the establishment of Renaissance Zones, an increase of \$650,000 from the current year.

**Fiscal Year 2005 Governor's Recommendation
Community Colleges
(\$ in Thousands)**

	FY03 Appropriation	FY04 Current Law*	FY05 Recommended*
GF/GP	\$307,512.1	\$285,097.0	\$285,747.0
All Funds	\$310,885.8	\$285,097.0	\$285,747.0
	% Change - GF/GP	-7.3%	0.2%
	% Change - All Funds	-8.3%	0.2%

Program	GF/GP	All Funds
Community College Operations	\$262,987.5	\$262,987.5
Tuition Restraint Incentive Funding	\$17,036.8	\$17,036.8
At-Risk Student Success Program	\$3,322.7	\$3,322.7
Renaissance Zone Tax Reimbursement	\$2,400.0	\$2,400.0
* Assumes all colleges are eligible to receive tuition restraint incentive funding.		
Total FY 2005 Recommendation	\$285,747.0	\$285,747.0

Universities and Financial Aid

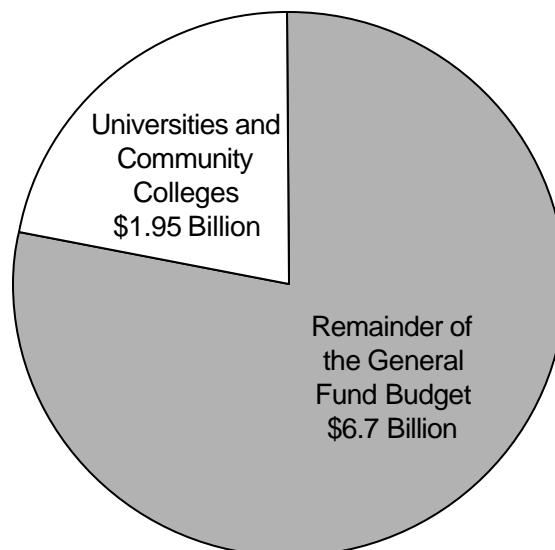
Michigan's 15 state universities offer diverse vocational, undergraduate, graduate, and professional programs and undertake basic and applied research activities to broaden knowledge and benefit society. Each university is governed by an independent board, which provides general supervision of the institution and directs its finances. State appropriations provide operations funding for Michigan's 15 public universities and also fund state student financial aid programs. Student financial aid programs provide both merit and need-based financial assistance to increase the educational opportunities available to postsecondary education students. State funding also supports the Agricultural Experiment Station, Cooperative Extension Service, and Project GREEN programs operated by Michigan State University that benefit the agricultural industry.

"The truth is our Michigan universities are extraordinary....They multiply possibilities for us as individuals and for our economy. It's their excellence that makes access to their classrooms so vital."

Governor Granholm, State of the State Message, January 27, 2004

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$1.63 billion, of which \$1.54 billion is general fund. In addition, the Capital Outlay budget provides funding of \$112.0 million for State Building Authority rent obligations for university buildings constructed in recent years.

Higher Education Spending as a Percent of Total General Fund Spending



Over 22 percent of the state budget supports higher education

Universities and Financial Aid Budget Highlights

- ◆ The fiscal year 2005 budget includes over \$1.4 billion in direct aid for public universities.
- ◆ Tuition levels must be kept low in order to make college affordable for all who enroll. In December 2003, the Governor and the Legislature agreed to a current year spending reduction plan that reduced university spending by 5 percent. Those universities that pledge not to increase tuition and fees for the remainder of this academic year, and not to increase 2004-2005 tuition and fees above inflation, will have 3 percent of their base funding restored. Funding for those universities that raise tuition above inflation, on the other hand, will be reduced by another 3 percent.
- ◆ In addition to the direct support for university operations, the state will subsidize pension contribution rates charged to the 7 universities with employees covered under the Michigan Public School Employees Retirement System. This action results in a savings of \$6.4 million in retirement costs that otherwise would be charged to these universities.
- ◆ Michigan Merit Award funding is recommended at \$67.0 million. Over 195,000 students have qualified for a Michigan Merit Award scholarship since the program began in 2000. The fiscal year 2005 funding pays for first year awards for high school students who will graduate in 2004, as well as for students from earlier graduating classes. The Governor also proposes the elimination of the Michigan Merit Award supplement, scheduled to begin for the class of 2005, for results achieved on the middle school MEAP tests, and adds a community service requirement beginning with the high school graduating class of 2005.

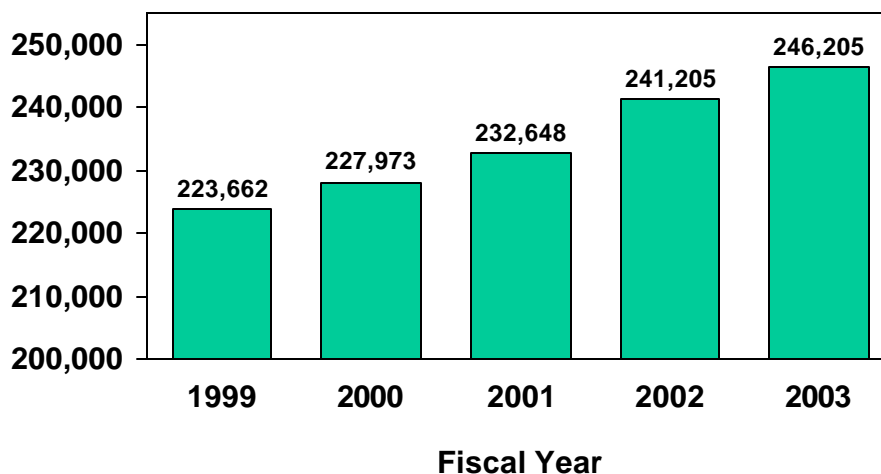
FY 2005 University Funding	(\$ in Thousands)	
	Operations	Tuition Restraint
Central Michigan University	\$75,018.3	\$4,892.6
Eastern Michigan University	72,563.4	4,732.4
Ferris State University	45,970.8	2,998.0
Grand Valley State University	54,358.9	3,545.2
Lake Superior State University	11,814.4	770.6
Michigan State University	269,913.0	17,603.0
Michigan Technological University	45,740.0	2,983.0
Northern Michigan University	43,066.6	2,808.6
Oakland University	45,160.9	2,945.2
Saginaw Valley State University	24,539.8	1,600.4
University of Michigan - Ann Arbor	301,029.6	19,632.4
University of Michigan - Dearborn	23,178.4	1,511.6
University of Michigan - Flint	19,928.4	1,299.6
Wayne State University	210,017.5	13,696.8
Western Michigan University	104,060.5	6,786.6
Total	\$1,346,360.5	\$87,806.0

- ◆ Funding for the Tuition Grant program that provides aid to college students attending private colleges and universities is eliminated, saving nearly \$64.8 million. Michigan can no longer afford to subsidize attendance at private colleges. Even after this reduction, total funding of over \$130.0 million will be available for student financial aid grants and scholarships. For example, the Governor's budget includes continuation

funding for the State Competitive Scholarship (\$35.6 million), Michigan Work-Study (\$7.3 million), Nursing Scholarship (\$4.0 million), Part-Time Independent Student (\$2.6 million), Michigan Education Opportunity Grants (\$2.1 million), and Byrd Honors Scholarship (\$1.5 million). Nearly all of these grants and scholarships are available to students who attend both public and private colleges and universities.

- ◆ The Tuition Incentive Program (TIP) encourages low-income Medicaid-eligible students to finish high school by providing financial assistance to attend college. TIP eligibility is certified before the student graduates from high school in order to encourage high school completion. Funding for the program is recommended at \$10.3 million, an increase of \$1.0 million, responding to the growth in TIP participation and higher tuition costs.
- ◆ The budget includes \$32.2 million for the Agricultural Experiment Station and \$27.7 million for the Cooperative Extension Service operated through Michigan State University. Included in these allocations is \$5.4 million for Project GREEN, which is an initiative to address regulatory, food safety, economic, and environmental problems that challenge plant-based agricultural industries. This funding reflects a 3 percent reduction in support for these programs.
- ◆ The recommended budget includes continuation funding of \$4.5 million for the University of Detroit Mercy dental school, to support dental clinics in southeast Michigan that provide care for low income residents.
- ◆ The Martin Luther King, Jr. – Cesar Chavez – Rosa Parks grants encourage participation of minority students in postsecondary education and are funded at \$2.7 million, the same amount as provided in the current year.

More Students Attend Public Universities



Full-time student enrollment has increased 10% since 1999

**Fiscal Year 2005 Governor's Recommendation
Higher Education - Universities and Financial Aid
(\$ in Thousands)**

	FY03 Appropriation	FY04 Current Law*	FY05 Recommended*
GF/GP	\$1,741,466.9	\$1,603,335.5	\$1,536,714.4
All Funds	\$1,844,901.7	\$1,697,566.2	\$1,631,964.4
	% Change - GF/GP	-7.9%	-4.2%
	% Change - All Funds	-8.0%	-3.9%

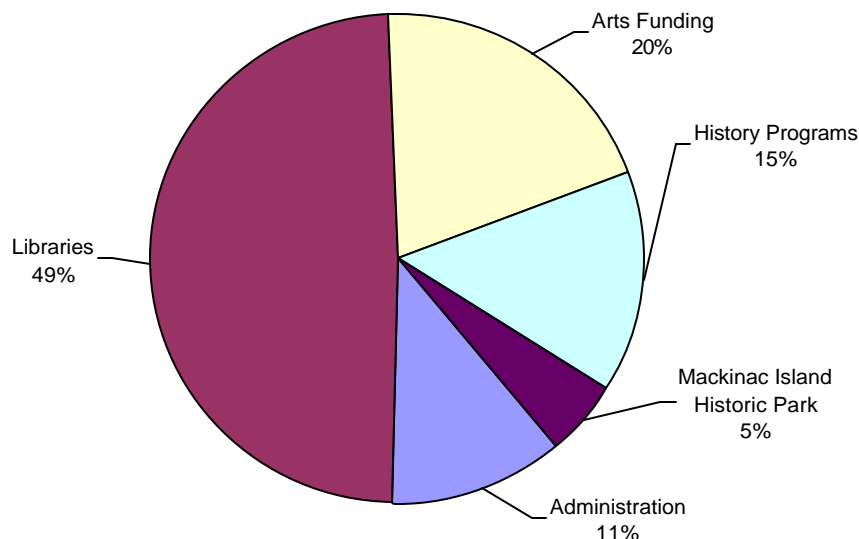
Program	GF/GP	All Funds
State Universities		
Operations	\$1,336,860.5	\$1,346,360.5
Tuition Restraint Incentive Funding	\$87,806.0	\$87,806.0
Student Financial Aid Programs		
Michigan Merit Award Program	\$0.0	\$67,000.0
State Competitive Scholarships	\$32,630.5	\$35,630.5
Tuition Incentive Program	\$0.0	\$10,250.0
Michigan Work Study Program	\$7,326.3	\$7,326.3
Nursing Scholarship Program	\$0.0	\$4,000.0
Part-time Independent Student Program	\$2,653.3	\$2,653.3
Michigan Education Opportunity Grants	\$2,084.2	\$2,084.2
Byrd Honors Scholarship Program	\$0.0	\$1,500.0
Other		
Agriculture Experiment Station	\$32,168.9	\$32,168.9
Cooperative Extension Service	\$27,746.2	\$27,746.2
Dental Clinics Grant	\$4,547.0	\$4,547.0
King-Chavez-Parks Programs	\$2,691.5	\$2,691.5
Higher Education Database	\$200.0	\$200.0
* Assumes all universities are eligible to receive tuition restraint incentive funding.		
Total FY 2005 Recommendation	\$1,536,714.4	\$1,631,964.4

Department of History, Arts and Libraries

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$58.7 million, of which \$47.5 million is general fund. In fiscal year 2005, the department will continue various initiatives that support tourism, historic preservation, economic development, and educational opportunities.

Department initiatives include adding a mapping component to the Michigan Historical website that includes historical information and site photographs; marketing Michigan's lighthouses, museums, historic ships, underwater preserves, and other maritime-themed resources as tourist destinations through the Michigan Maritime Heritage Destination program; working with the Michigan Economic Development Corporation to identify designated brownfield sites that contain historical sites eligible for the national register, qualifying them for preservation tax credits; and developing on-line education materials for Michigan students relating to the Mackinac Island State Parks.

Libraries Receive Nearly Half of Department's Funding



Total: \$58.7 Million

Department Priorities

- Use arts, culture, and historic preservation as integral resources for urban growth and revitalization.
- Create and improve cultural tourism destinations in Michigan to capitalize on economic development opportunities.
- Support and promote best practices in providing quality educational experiences involving history, arts, libraries, and culture in order to positively impact student achievement, social and economic development, workforce preparation, and cultural diversity.
- Support open government through accessible records of government action and other materials of interest in the state's possession.
- Continuously improve access to information and learning resources for all citizens, regardless of economic means, via the web-based Michigan eLibrary (MeL).

History, Arts and Libraries Budget Highlights

- ◆ Library of Michigan – Funding for library services in fiscal year 2005 is recommended at \$28.8 million, of which \$23.1 million is general fund. Funds are allocated to local libraries throughout the state, and also support specialized programs such as services for the blind and physically handicapped, book distribution centers, state government information services, the State Law Library, and the Michigan eLibrary (MeL). MeL provides a 24 hour per day comprehensive electronic information tool for Michigan’s libraries, schools, and the general public. In fiscal year 2003, the MeL website was visited by 30.5 million users. In addition, \$1.5 million is added for the Preservation and Access for Michigan project, which provides grant funding to local libraries to digitize unique items and materials in order for them to be accessible through MeL.
- ◆ Arts and Cultural Affairs – Funding for the Council for Arts and Cultural Affairs is recommended at the current year level of \$12.5 million. The Council provides grants to non-profit organizations to encourage an artistic, creative, and cultural environment by supporting arts education, increasing awareness of arts and culture, and encouraging innovative works of art. The Governor has challenged the Council to target arts grants to support revitalization efforts in our cities.

“The arts quench our souls’ thirst for beauty every day. The organizations supported ... by arts and cultural grant awards are vital to the quality of life in their communities, supplying everything from in-school educational programming ... to operas, symphonies and improved cultural facilities.”

Governor Granholm, September 2003

- ◆ Michigan Historical Programs – A total of \$8.4 million is recommended for the state’s history programs. Funding supports the Heritage publications, Michigan Freedom Trail Commission, Thunder Bay National Marine Sanctuary, the Michigan Historical Museum system, state archives, records management center, state historical preservation office, and the office of the state archaeologist. Over 700,000 people annually visit the Michigan Historical Center in Lansing, nine field museums, one historic site, and 53 historic structures, which together hold over 200,000 artifacts.

- ◆ Mackinac Island Historic Parks – Funding for Mackinac Island State Historical Parks is recommended at \$3.0 million, \$1.5 million general fund. The Mackinac State Historical Parks include Fort Mackinac, Mackinac Island State Park, Colonial Michilimackinac, Historic Mill Creek, and Old Mackinac Point Lighthouse. There are over 800,000 tourists who annually visit the 2,400 acres of land that encompass these parks, which include historic sites, recreational facilities, trails, a harbor, and an airport.
- ◆ Due to the state’s current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance, and retirement, which are projected to increase by \$1.5 million in 2005. Therefore, a savings adjustment of \$572,100 is recommended to partially offset these costs.

**Fiscal Year 2005 Governor's Recommendation
Department of History, Arts and Libraries
(\$ in Thousands)**

	*FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$58,940.7	\$44,201.7	\$47,463.1
All Funds	\$69,647.2	\$56,548.0	\$58,743.2
	% Change - GF/GP	-25.0%	7.4%
	% Change - All Funds	-18.8%	3.9%

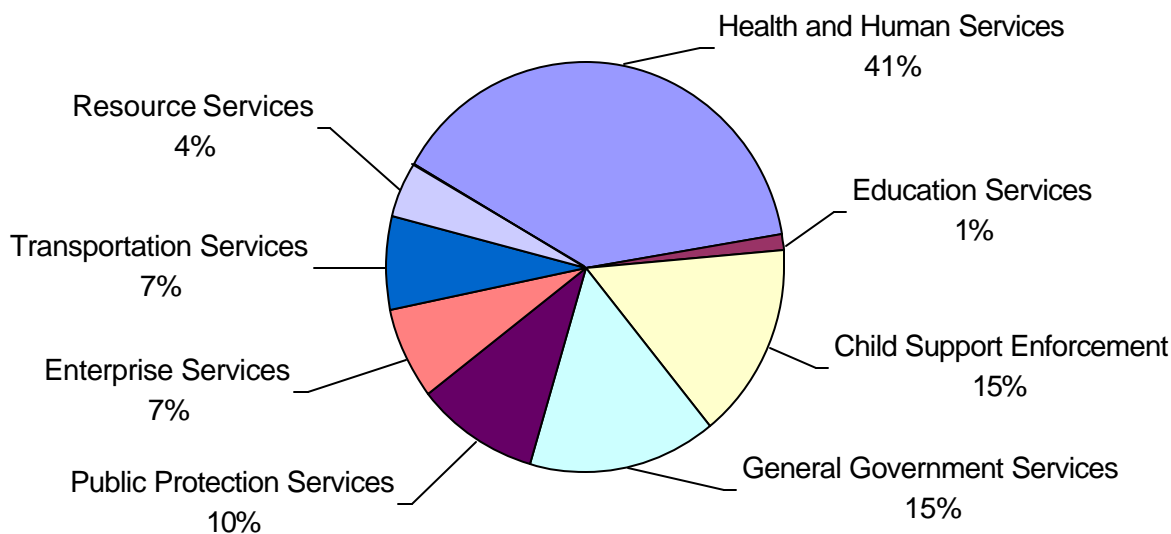
Program	GF/GP	All Funds
Libraries	\$23,122.5	\$28,841.8
Council for Arts and Cultural Affairs	\$11,779.2	\$12,479.2
Historical Programs	\$5,109.7	\$8,441.3
Department Operations and Information Technology	\$5,930.9	\$5,980.9
Mackinac Island State Park Commission	\$1,520.8	\$3,000.0
* Adjusted for program transfer.		
Total FY 2005 Recommendation	\$47,463.1	\$58,743.2

Department of Information Technology

The Department of Information Technology is responsible for the efficient management of state information technology resources, and the delivery of information technology services to state agencies. The consolidation of information technology functions and resources supports an integrated statewide plan for information management leading to more efficient and effective use of resources.

The Governor's Recommendation for the Department of Information Technology totals \$366.2 million and is fully supported by user fees from client agencies.

Department of Information Technology Delivers Services to State Agencies



Total: \$366.2 Million

Department Priorities

- Improve citizen access by putting Michigan government services on-line.
- Improve state employee productivity through the use of technology.
- Develop innovative technology solutions that leverage (or reuse) existing hardware, software, data and technology resources.
- Continue to achieve savings and efficiencies through statewide management of information technology contracts, standardized architecture, and continued centralization of technology infrastructure.
- Continue the implementation of the Secure Michigan Initiative to enhance the security and integrity of Michigan's information technology assets.
- Provide for the successful implementation of information technology initiatives through tightly managed, well run projects.
- Provide geographic information system capabilities to state and local units of government so services can be integrated and coordination enhanced.

Information Technology Budget Highlights

- ◆ Created to achieve a unified and more cost-effective approach for managing information technology (IT) services for the state, the Department of Information Technology works to streamline and consolidate computer operations and equipment to achieve cost savings for the state. The fiscal year 2005 budget recommendation for the department is \$366.2 million, a decline of almost \$100 million since fiscal year 2003.
- ◆ The department will continue to pursue statewide technology solutions that improve the efficiency of state government, including a centralized purchasing authorization system that will standardize on-line credit card purchases for state government services. Citizen access to state government will be improved through further development of on-line issuance of permits, electronic grant applications, automated filing of retirement claims and tax documents, and greater computer access through public kiosks. The department will improve the privacy of citizen data through the Secure Michigan Initiative, which has been nationally recognized for excellence as a plan for improving the security of the state's computer systems.
- ◆ The Department of Information Technology is responsible for the management and operation of all telephone and other telecommunication systems for the state. Through an effort called LinkMichigan, the department is now merging multiple networks into one at an annual cost savings of nearly \$2.0 million. LinkMichigan provides for transmission in multiple ways (voice, video, data) and it allows each department in state government the option to choose their own bandwidth, a choice that was previously unavailable and resulted in higher costs.
- ◆ The department is instrumental in achieving cost savings through the management of all information technology contracts. Before the creation of the department, each agency managed their own technology contracts, resulting in diminished buying power and higher costs. The department also took the lead in reducing the number of contractors, converting these expensive contract positions to less costly state jobs.
- ◆ Working with local governments, private industry, and with their fellow state agencies, the department continues to foster valuable partnerships, moving the state towards a shared and common approach to managing information technology. A good example of this approach is the Child Support Enforcement System (CSES). The department partnered with the Family Independence Agency, other state agencies, prosecuting attorneys, and the courts to establish the system – an electronic network linking child support information in all 83 counties. The fiscal year 2005 budget includes \$56.0 million for operation of the federally-certified child support system.

Fiscal Year 2005 Governor's Recommendation Department of Information Technology (\$ in Thousands)	
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	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$0.0	\$0.0	\$0.0
All Funds	\$465,595.5	\$360,239.3	\$366,235.8
	% Change - GF/GP	0.0%	0.0%
	% Change - All Funds	-22.6%	1.7%

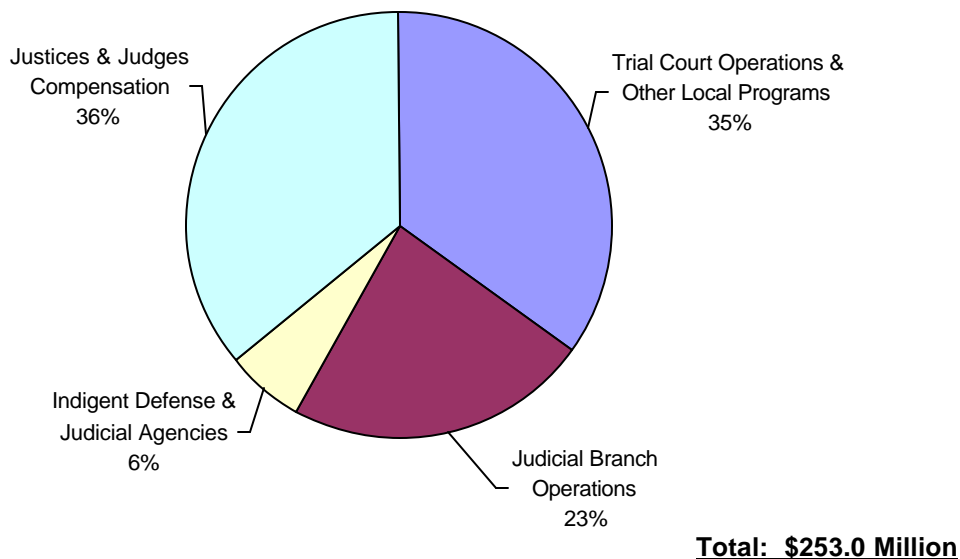
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Judiciary

The Michigan Constitution vests the judicial power of the state exclusively in a court system composed of the Supreme Court, the Court of Appeals, the circuit court (which is the trial court of general jurisdiction, including the family court division), the probate court, and courts of limited jurisdiction such as the Court of Claims, district court and municipal courts. The statewide court system is administered by the Supreme Court Justices through the State Court Administrative Office.

The Executive Recommendation for fiscal year 2005 is \$253.0 million, of which \$158.1 million is general fund, a reduction of \$51,300 from current year levels.

Over One-Third of Budget Supports Local Trial Court Operations



Judiciary Priorities

- Improve collection processes at local trial courts by increasing the number of courts using the Treasury tax intercept and debt referral programs, and by providing software enhancements, direct technical assistance, and increased oversight and audits.
- Continue to develop the statewide telecommunications network at local trial courts in order to provide courts and the criminal justice system with quick, accurate, and accessible information.
- As an alternative to traditional sanctions, continue to develop and expand the use of drug treatment courts to help nonviolent offenders stop using drugs and alcohol and lead more productive lives.
- In order to provide more cost-effective training to judicial personnel around the state, expand the number of Web-based courses offered by the Michigan Judicial Institute.

Judiciary Budget Highlights

- ◆ The fiscal year 2005 recommendation for the Judiciary includes funding of \$89.4 million for trial court and local programs and \$92.2 million for compensation for judges.
- ◆ The Governor and the Legislature supported the recommendations from the Chief Justice in 2004 to consolidate and slightly increase criminal justice assessments and various court filing fees. The fiscal year 2005 budget realizes additional revenues generated by the 2004 fee changes. Increased collections in the Justice System Fund, Civil Filing Fee Fund, and State Court Fund will generate \$2.2 million in general fund savings in the Judiciary budget.
- ◆ The 2005 Executive Recommendation for the Judiciary budget contains \$4.6 million for Michigan's drug treatment courts. The Governor supports the continued use of drug courts to provide a comprehensive approach of intervention, drug treatment, supervision, and other services to successfully break the cycle of relapse and recidivism leading to costly incarceration. Presently, Michigan has 25 operational drug courts with ten more in planning and development stages.
- ◆ Support is continued at the current level of \$12.8 million for indigent legal assistance. Through the State Appellate Defender Office (SADO) and the Michigan Appellate Assigned Counsel System, the state provides criminal defense appellate counsel for indigents. A portion of court filing fees from the State Court Fund support civil legal assistance for indigents; over 51,000 indigent residents received assistance in 2002.
- ◆ Seven public acts, passed in 2001 and 2002, will impact judgeships in the state during fiscal year 2005. For district courts, one judgeship is created and one is abolished. For circuit courts, three judgeships are abolished and four are created. For probate courts, three judgeships are abolished and one part-time judgeship is converted to full time. The net effect of changes in judgeships statewide results in reduced costs of \$101,700 in fiscal year 2005.
- ◆ There is no adjustment for statewide salary increases for judges in the Executive Recommendation. The State Officers Compensation Commission will not propose an adjustment that will effect fiscal year 2005 salaries for judges. Economic adjustments totaling \$4.1 million are included in the Executive Recommendation for projected increases in salary and wage, insurance, and retirement costs for Judicial staff. Due to the state's current revenue problems, a savings adjustment of \$1.5 million is included to partially offset these employee-related economic costs.
- ◆ The Executive Recommendation includes a \$1.0 million reduction to the Court Equity Fund that will be replaced by a \$1.0 million earmark from the Judicial Technology Improvement Fund for use by local courts. These funds encourage technological innovations to enhance public services.
- ◆ The 2005 Executive Recommendation continues \$2.7 million in funding for the Michigan Judicial Institute to provide education and training services for judges and court staff. The Institute provides training through publications, seminars, video and Web-based instruction.

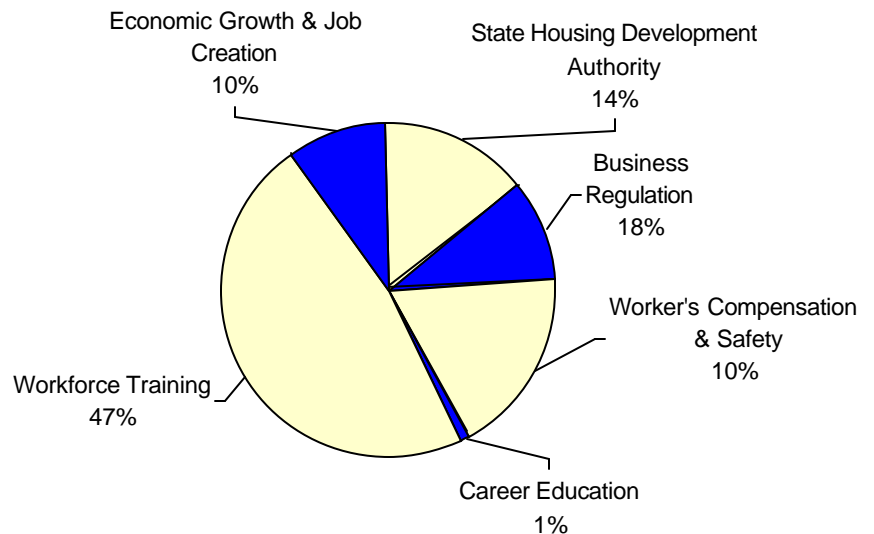
Fiscal Year 2005 Governor's Recommendation			
Judiciary			
(\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$173,619.1	\$160,216.4	\$158,093.3
All Funds	\$241,613.8	\$253,067.9	\$253,016.6
	% Change - GF/GP	-7.7%	-1.3%
	% Change - All Funds	4.7%	0.0%

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Department of Labor and Economic Growth

The Department of Labor and Economic Growth embodies Governor Granholm's determination to make Michigan an economic powerhouse by aggressively promoting job creation and economic growth. By centralizing and streamlining the state's workforce and economic development functions, the department serves as a "one-stop" shop for business creation, retention and development. The department partners with businesses by offering workforce development tools, providing incentives for businesses to locate and expand in Michigan, and promoting safety and economic competitiveness through licensing and regulatory activities. The recommended budget for the Department of Labor and Economic Growth is \$1.2 billion total, of which \$108.9 million is general fund.

Labor and Economic Growth Provides Workforce Training and Promotes Job Creation



Total: \$1.2 Billion

Department Priorities

Promote Economic Growth and Job Creation

- Grow Michigan by creating a new economic future for businesses, workers, communities and families that will transform Michigan into a magnet state attracting people, capital and new companies.
- Rank Michigan among the top 5 states in nation for new business expansions and locations.
- Rank Michigan in the top 3 Midwest states as a leisure travel destination.

Reshape Michigan's Workforce Development Strategy

- Integrate workforce development with economic development efforts.
- Increase labor market attachment, advancement and navigation by redefining and improving workforce services and information.

Protect People and Improve Services

- Ensure that affordable and equitable home, auto, and health insurance are available to Michigan residents and small businesses.
- Provide timely services to those who have lost their jobs.
- Connect hard-to-place workers to meaningful jobs.

Labor and Economic Growth Budget Highlights

On October 2, 2003, Governor Granholm issued Executive Order 2003-18 creating the Department of Labor and Economic Growth. This unprecedented restructuring combined the functions of the former departments of Consumer and Industry Services, Career Development and the Michigan Strategic Fund Agency into a new centralized and streamlined “one-stop” agency focused on job creation, workforce development, and economic growth. The consolidation of these functions allows Michigan to position itself as one of the most nimble and business-sensitive states in the nation.

Governor Granholm is marshalling resources and clearing bureaucratic red tape for a number of targeted economic development initiatives in fiscal year 2005.

“People still say they are going to work at “Ford’s” or “Chrysler’s,” even though the men who created these companies long ago passed away. But we often forget that little guys with big ideas, and the drive to make them happen, started those enormous enterprises. Today, we need to instill that entrepreneurial thinking--to get our residents and our young people imagining that they have the potential to be their own boss, the innovator, the producer of wealth and jobs, the next Peter Karmanos or Charles Stewart Mott.”

**Governor Granholm, State of the State
Message, January 27, 2004**

◆ In cooperation with the Michigan Economic Development Corporation, three new financial tools are being created to help businesses take root in Michigan and grow new jobs at every stage of development—the Emerging Business Fund, the Venture Michigan Fund, and the Small Business Growth Fund. These innovative financial tools will collectively leverage federal and private dollars to make more than half a billion dollars available for starting a new business in Michigan. Although no new state funds will be required to support this initiative, the creation of these financial tools sends a strong message to entrepreneurs and businesses that we stand ready to help grow business and create new jobs here in Michigan.

- The department will also work collaboratively with community colleges to develop an accelerated entrepreneurship curriculum to provide students with the skills and knowledge needed to create their own businesses.
- The Governor recommends \$1.2 million in state restricted funds to support the Land Bank Fast Track Authority and Right-of-Way Oversight Authority so that tax reverted properties can be quickly marketed for sale and public right-of-way disputes resolved, clearing state and local bureaucratic impediments to economic development.
- In addition, Governor Granholm is re-directing \$100,000 in existing resources to create and administer a state clearinghouse on entrepreneurship that will be available to the public via the Internet and serve as a resource tool for business development information.

- ◆ Governor Granholm further recommends \$113.7 million, \$47.2 million general fund, for Welfare-to-Work programs for our state's neediest citizens. Additional Temporary Assistance for Needy Families (TANF) funds of \$10.9 million and additional general fund revenues of \$39.9 million replace federal Reed Act money, which is no longer available. These funds will be used to provide employment and training services to public assistance recipients.
- ◆ The Governor's budget provides \$83.3 million, including \$2.9 million in additional federal funds, to aid workers who have lost employment due to job losses resulting from the North American Free Trade Agreement. This assistance program provides transitional services so workers can re-enter the workforce.
- ◆ Almost \$15.0 million is added for increases to several federal grant programs, including \$3.5 million for adult basic education, \$100,000 for supported employment grants, \$5.0 million in Carl D. Perkins grants for community colleges and career technical education schools, and \$6.0 million for job training programs benefiting the unemployed, underemployed and displaced workers in Michigan.
- ◆ Governor Granholm also recommends a \$12.2 million increase in funding for local fire protection grants. A total of \$15.9 million is recommended, more than four times greater than the current year expenditure level of \$3.7 million. Of this increase, \$8.5 million is from the Fire Protection Fund, created by Public Act 165 of 2003, which earmarks driver responsibility fees for fire protection grants if statutory floors on annual revenues are met. An additional \$3.7 million is contingent on passage of recommended legislation to change the current liquor marketing laws and thereby increase revenues to the Liquor Purchasing Revolving Fund.
- ◆ A total of \$4.0 million is added for remonumentation grants to local units of government to support the restoration, maintenance, and preservation of land survey records of vertical and horizontal monuments used as the basis for determining all public and private property locations in Michigan. This increase reflects the growth in state restricted survey and deed recording fees dedicated to this \$10.0 million program.
- ◆ The Executive Recommendation maintains funding of \$15.0 million for the Technology Tri-Corridor, which is a catalyst for research, development and commercialization in high-tech areas. The Tri-Corridor fosters growth in life sciences, advanced automotive technologies and homeland security industries through funding and resource collaboration.
- ◆ The Executive Recommendation includes an increase of \$30.0 million to fund employee-related economic increases. Due to current budgetary pressures, however, the state is unable to fully fund these increases in employee salaries, insurance and pension costs. Therefore, the budget includes a savings adjustment of \$10.8 million to partially offset these costs.

**Fiscal Year 2005 Governor's Recommendation
Department of Labor & Economic Growth
(\$ in Thousands)**

	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$102,395.2	\$68,976.3	\$108,910.1
All Funds	\$1,151,492.8	\$1,126,944.2	\$1,219,276.6
	% Change - GF/GP	-32.6%	57.9%
	% Change - All Funds	-2.1%	8.2%

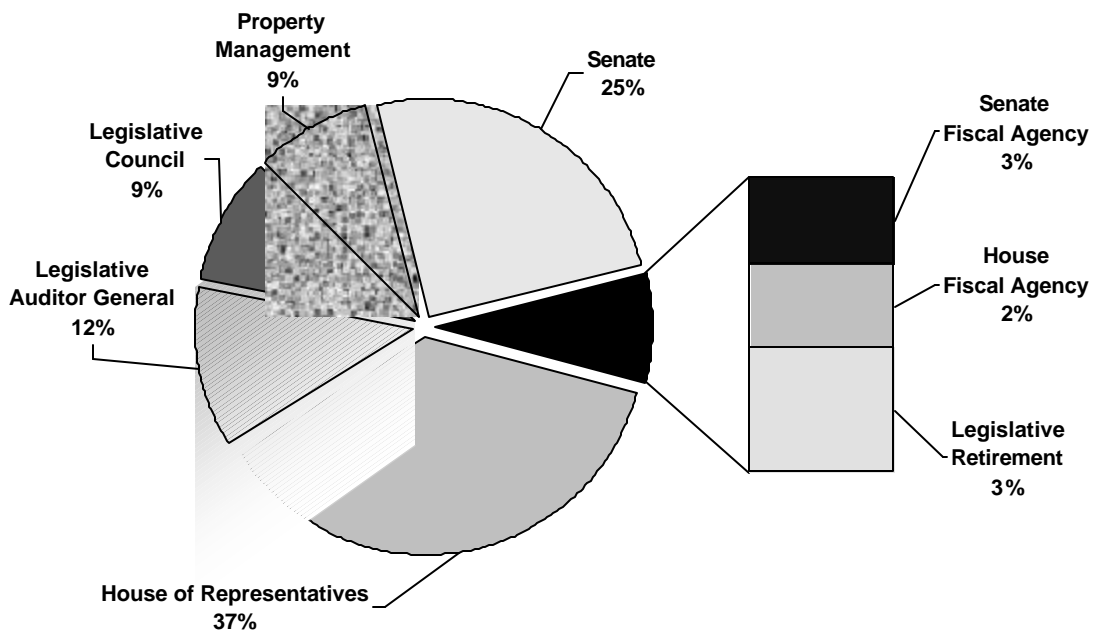
Program	GF/GP	All Funds
Workforce Training	\$65,206.6	\$579,952.5
Business Regulation	\$445.6	\$215,805.1
State Housing Development Authority	\$0.0	\$174,646.0
Worker's Compensation and Safety	\$0.0	\$120,543.6
Economic Growth and Job Creation	\$41,517.3	\$118,830.8
Career Education	\$1,740.6	\$9,498.6
*Adjusted for program transfers.		
Total FY 2005 Recommendation	\$108,910.1	\$1,219,276.6

Legislature

The Michigan Constitution vests the state's lawmaking power in a two-house Legislature consisting of a 38-member Senate and a 110-member House of Representatives. The Legislature is a sovereign and independent branch of state government with the authority to enact laws that regulate and protect the actions and interests of the government and the people.

The fiscal year 2005 Legislative budget is \$118.6 million, of which \$114.1 million is general fund.

Legislative Budget Supports Elected Officials and Their Staff



Total: \$118.6 Million

Legislature Budget Highlights

- ◆ The Executive Recommendation for fiscal year 2005 is unchanged from the current year. The Executive Recommendation includes \$29.5 million for the Senate and \$43.9 million for the House of Representatives.
- ◆ The non-partisan fiscal agencies are funded at \$2.9 million for the Senate Fiscal Agency and \$2.7 million for the House Fiscal Agency. The fiscal agencies assist all legislators on budget-related issues and provide fiscal analyses of pending legislation.
- ◆ Funding for the Legislative Auditor General is recommended at \$14.3 million. The Legislative Auditor General has the responsibility to conduct financial and performance audits of state government operations.
- ◆ Funding for the Legislative Council is \$11.0 million. The Legislative Council oversees agencies that serve the House and Senate. These agencies include the Legislative Service Bureau, the Legislative Council Facilities Agency, the Michigan Law Revision Commission, the Michigan Commission on Uniform State Laws, and the Joint Committee on Administrative Rules.

Fiscal Year 2005 Governor's Recommendation Legislature (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$118,883.5	\$114,072.8	\$114,072.8
All Funds	\$123,441.5	\$118,630.8	\$118,630.8
	% Change - GF/GP	-4.0%	0.0%
	% Change - All Funds	-3.9%	0.0%

Program	GF/GP	All Funds
House of Representatives	\$43,853.1	\$43,853.1
Senate	\$29,547.2	\$29,547.2
Legislative Auditor General	\$11,253.3	\$14,301.5
Legislative Council	\$10,564.0	\$10,964.0
Property Management	\$10,273.4	\$10,273.4
Legislative Retirement System	\$2,947.2	\$4,057.0
Senate Fiscal Agency	\$2,901.7	\$2,901.7
House Fiscal Agency	\$2,732.9	\$2,732.9
Total FY 2005 Recommendation	\$114,072.8	\$118,630.8

Department of Management and Budget

The Department of Management and Budget supports the business operations of state agencies through a variety of services. These services include building management and maintenance, centralized contracting and purchasing programs, space planning and leasing, construction management, management of the state motor vehicle fleet and management of the state retirement systems.

The department also houses three autonomous agencies. The Office of the State Budget coordinates all Executive Budget activities and oversees the state's accounting and payroll functions. The Office of the State Employer oversees all collective bargaining negotiations and formulates and administers labor relations policies for state classified employees. The Office of Children's Ombudsman monitors compliance with statutes, rules, and policies pertaining to children's protective services and the placement, supervision, and treatment of children in foster care and adoptive homes.

The Governor's fiscal year 2005 budget recommendation totals \$157.3 million, of which \$37.1 million is general fund.

Department Priorities

Budget Office

- Improve financial accountability and control of state government spending.

Children's Ombudsman

- Monitor state and private agencies to assure the safety and well being of children in need of protective services, foster care or adoption.

Management

- Improve state efficiency and effectiveness through innovative financial, procurement and business strategies, cost controls, best practices and administrative partnerships.
- Strengthen the strategic focus and management of the state's real estate portfolio to decrease costs, save energy, and support urban revitalization and economic growth.
- Provide quality customer service to members and retirees of the state's pension systems.

State Employer

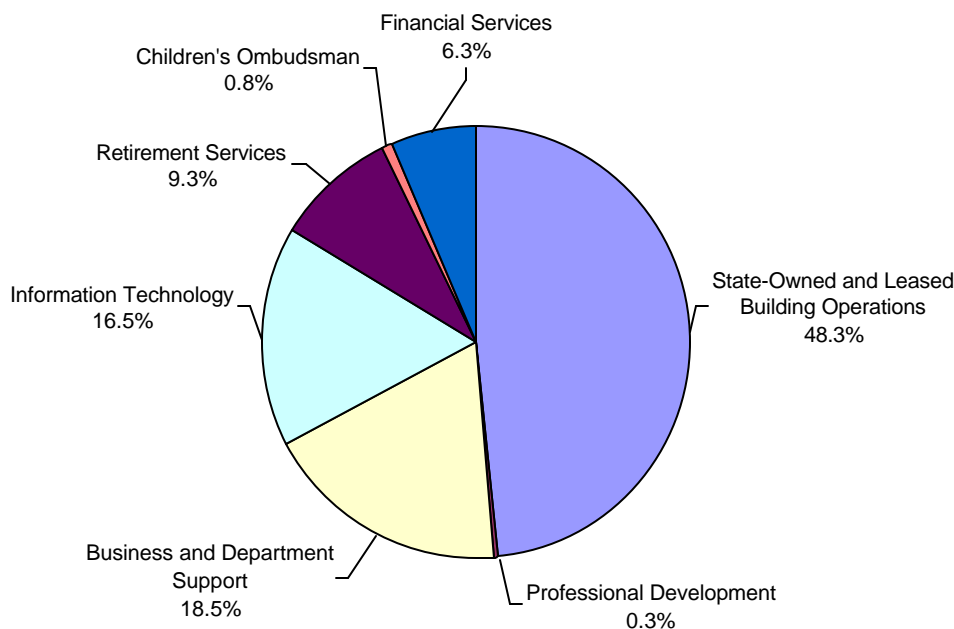
- Negotiate voluntary collective bargaining agreements, including compensation and benefit provisions, to foster a positive labor-management relationship while maintaining management rights and controlling costs.

Management and Budget Highlights

- ◆ The Governor recommends \$157.3 million gross and \$37.1 million general fund for fiscal year 2005.
- ◆ The total recommended budget includes \$75.9 million for operations of state-owned and leased office buildings, a reduction of \$16.3 million from fiscal year 2004 levels. This reduction will be achieved primarily through restructuring of rent payments for long-term leases of buildings managed by the department.
- ◆ Information technology costs for Michigan Administrative Information Network, the state's financial management system, will be controlled through reductions in contract prices and less reliance on high priced contract staff for system maintenance. These cost containment measures, started this year, will total over \$714,500 in fiscal year 2005.
- ◆ The Department of Management and Budget will partner with the Department of Treasury to provide internal audit services. Funding of \$425,000 is transferred from the Department of Treasury to support this administrative partnership that promotes sharing of resources and a more efficient audit process.
- ◆ The Executive Recommendation provides funding for employee-related economic costs. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$6.3 million in 2005. Therefore, a savings adjustment of \$1.9 million is recommended to partially offset these costs.
- ◆ The total recommended budget for the Office of Retirement Services is \$14.7 million. Retirement Services provides support services to the 550,000 active and retired members of

the state employee, public school employee, and judicial retirement systems. The implementation of additional automated support services will enable members to access their retirement information by telephone, Internet, fax, interactive voice response, or in person.

DMB Provides Services to State Agencies



**Fiscal Year 2005 Governor's Recommendation
Department of Management and Budget
(\$ in Thousands)**

	FY03* Appropriated	FY04 Current Law	FY05 Recommended
GF/GP	\$38,662.3	\$35,828.9	\$37,111.6
All Funds	\$181,217.4	\$229,987.8	\$157,337.5
	% Change - GF/GP	-7.3%	3.6%
	% Change - All Funds	26.9%	-31.6%

Program	GF/GP	All Funds
State-Owned and Leased Building Operations	\$0.0	\$75,921.1
Business and Department Support	\$11,969.8	\$29,041.7
Information Technology Services and Projects	\$15,880.0	\$25,966.4
Retirement Services	\$0.0	\$14,697.4
State Financial Management	\$7,982.5	\$9,926.6
Office of Children's Ombudsman	\$1,279.3	\$1,279.3
Professional Development and Severance Pay	\$0.0	\$505.0
*Adjusted for program transfers.		
Total FY 2005 Recommendation	\$37,111.6	\$157,337.5

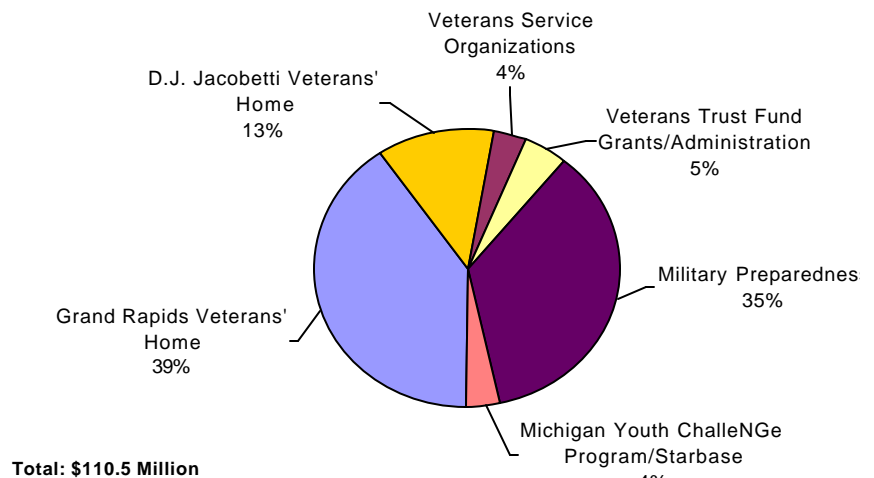
Department of Military and Veterans Affairs

The Department of Military and Veterans Affairs has dual missions: administration of state-regulated services to veterans, and military preparedness to assist both state and federal authorities. At the state level, the department protects the lives and property of Michigan residents during times of natural disaster or civil unrest. The department also assists the federal government in defending sovereign interests of the United States. There are over 11,000 members of the Michigan National Guard; over 1,900 have been called to active duty and mobilized to serve in the Iraqi Freedom campaign and other parts of the world.

Equally important is the supervision of the veterans' homes, administration of grant monies to veteran service organizations and oversight of the Michigan Veterans Trust Fund.

The Governor's proposed budget for fiscal year 2005 recommends total operations funding for the department of \$110.5 million, of which \$37.6 million is general fund. The Capital Outlay budget also includes \$48.3 million for various capital outlay projects to support the department and the Michigan National Guard.

Over 60% of Funding is for Services to Veterans



Department Priorities

Military Readiness

- Recruit and retain an all volunteer force of citizen soldiers to provide for both federal and state missions.
- Provide National Guard soldiers with adequate facilities, training areas and equipment to maintain readiness.

Homeland Security

- Develop procedures, protocols and exercises to assure homeland security, including the protection of the state's vital resources.

Services to Veterans

- Provide nursing home care to aged veterans consistent with state and federal standards.
- Provide temporary assistance for emergencies or hardships to eligible wartime veterans and their families.

Family and Youth

- Provide support to the families of deployed members of the Michigan National Guard.
- Provide leadership and educational opportunities to Michigan youth.

Military and Veterans Affairs Budget Highlights

- ◆ The Governor's fiscal year 2005 budget includes funding of \$57.9 million for both the Grand Rapids Veterans' Home and the D.J. Jacobetti Veterans' Home to support continued levels of excellent domiciliary, skilled, and special needs care to Michigan veterans. The Governor also recommends an additional \$87,000 of available federal revenue for increased drug and medical supply costs.
- ◆ The fiscal year 2005 budget recommendation continues funding of \$3.9 million for Veterans Service Organizations located throughout the state. The Veterans Service Organizations provide information and referral services to Michigan veterans. In addition, the Michigan Veterans Trust Fund continues to provide \$4.8 million for the basic needs of Michigan's veterans and their dependents. This is accomplished by providing emergency grants for housing, utilities, food, and medicine, as well as tuition assistance grants for the children of disabled or deceased veterans.
- ◆ The Governor recommends funding of \$3.5 million for the Michigan Youth ChalleNGe Academy, which provides high school dropouts and at-risk youth the opportunity to become productive members of their communities. The Academy offers a 22-week residential program that includes a boot camp setting as well as academic instruction and personal development. The residential program is followed by a 12-month community-based mentoring phase.
- ◆ The budget includes an additional \$3.3 million in federal funding for security contracts, personnel costs and maintenance costs at the five major military training sites and 49 armories located statewide. The training sites used by the Army National Guard are Camp Grayling and Fort Custer, while the Air National Guard uses the Alpena Combat Readiness Training Center, the Battle Creek Air National Guard Base, and the Selfridge Air National Guard Base. The armories serve as an activity focal point for National Guard units during drill weekends and as community activity centers.
- ◆ The Governor maintains funding of \$1.3 million for the National Guard Educational Assistance Program which reimburses National Guard members for college tuition costs.
- ◆ The proposed budget includes an increase of \$5.7 million for employee-related economic costs. Like other state agencies, however, the Military and Veterans Affairs budget includes a savings adjustment of \$2.2 million to help pay for the economic increases.
- ◆ The department anticipates \$300,000 in federal grant revenue for homeland security. The additional resources will be used to detect, prepare for, prevent, protect against, respond to, and recover from terrorist violence or threats, and to maintain peace and good order.

Fiscal Year 2005 Governor's Recommendation Department of Military and Veterans Affairs (\$ in Thousands)	
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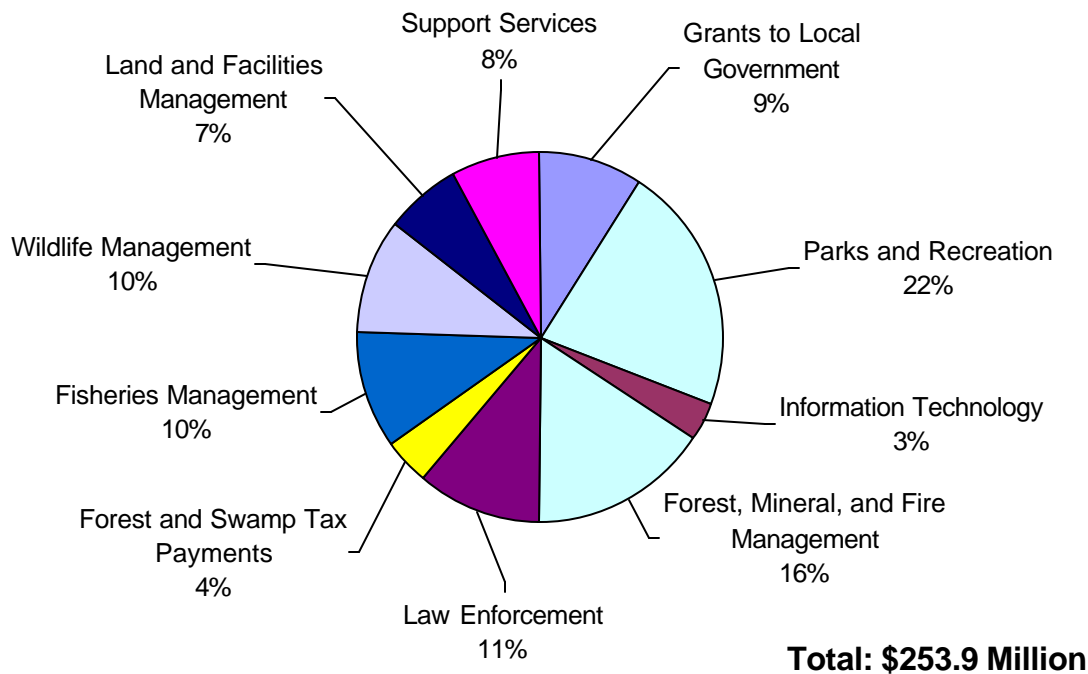
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$38,378.3	\$36,328.8	\$37,563.0
All Funds	\$101,660.4	\$103,097.5	\$110,466.2
	% Change - GF/GP	-5.3%	3.4%
	% Change - All Funds	1.4%	7.1%

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Department of Natural Resources

The Department of Natural Resources is committed to the conservation, protection, management, use, and enjoyment of the state's natural resources for current and future generations. Michigan has 11,000 inland lakes, 36,000 miles of rivers and streams, and 3,000 miles of freshwater shoreline. The department continually strives to develop innovative ways to partner with federal and private concerns to provide effective resource management. The Governor's proposed budget for fiscal year 2005 recommends total operations funding for the department of \$253.9 million, of which \$25.6 million is general fund. The Capital Outlay budget also includes almost \$2.5 million for various recreational and maintenance projects.

DNR Funds a Wide Variety of Recreational and Conservation Activities



Department Priorities

- Provide a fun and safe environment on public lands and waters for outdoor recreational activities while protecting and preserving Michigan's outdoor heritage for future generations.
- Implement appropriate surveillance, control and eradication measures to ensure no new wildlife diseases or invasive species enter Michigan lands or waters.
- Improve the quality of Michigan forest lands through appropriate harvesting of timber, oil and gas reserves, contributing to the state's economic vitality.
- Provide wildfire prevention and control to protect the public and the state's natural resources and man-made structures.
- Provide public information and educational services to families and youth to encourage family-oriented outdoor recreational opportunities and conservation efforts.

Natural Resources Budget Highlights

- ◆ The Department of Natural Resources makes payments to local units of government in lieu of taxes on state owned lands, most of which is vacant forestland. For fiscal year 2005, the Governor proposes to make payments for purchased lands via the revenue sharing program, with these obligations considered the first call on revenue sharing support to local units of government. This saves over \$2.0 million general fund and also saves state restricted funds, including \$4.7 million in Game and Fish funds, \$1.2 million in Natural Resources Trust Fund revenues, and \$376,900 in Waterways funds. These fee-supported funds, all managed by the Department of Natural Resources, can be reinvested in conservation and recreational activities more consistent with the purpose for which the fees are collected. Proposed corresponding statutory modifications include a limit on property assessment growth for state-owned lands and elimination of state liability for the state education tax. State payments for forest, swamp, and tax reverted lands are unaffected by this proposal and are funded at the current combined level of \$9.8 million.
- ◆ The department has initiated efforts to obtain certification for all Michigan forests by the end of 2005. Forest certification is a means of protecting forests by promoting responsible forestry practices. This is becoming increasingly more important as retailers demand timber from forests that are managed responsibly. The department is exploring various certification models for implementation, which consider endangered species and other environmental factors. Once certified, management of forest lands will be governed by this process.
- ◆ The department manages the largest state forest system in the nation with 4 million acres and is committed to the prevention and control of wildfires. For fiscal year 2005, the Governor proposes to use \$1.0 million of additional forest development funds in support of the program, which will result in a corresponding savings to the general fund. Overall funding levels for forestry and fire protection remain at the current level of \$35.3 million.
- ◆ The fiscal year 2005 recommendation maintains full funding of \$54.4 million for Michigan's 97 state parks. As in the current year, the state parks continue to be self-supporting.
- ◆ Eradication of infectious diseases in our wildlife population remains a top priority for the department. The 2005 recommendation contains continuation level funding of \$2.0 million for on-going surveillance and eradication of bovine tuberculosis in the state's white-tailed deer herd. Since 1995, over 122,000 deer have been tested, with only 449 positive tests.

- ◆ Today's conservation officers are committed to protecting Michigan's natural resources and the environment, as well as the health and safety of the public through effective law enforcement and education. The department is planning a 20-member conservation officer school scheduled to begin in August of 2004. The fiscal year 2005 recommendation supports over 200 active conservation officers by providing \$28.2 million for salaries, equipment, and other operational costs.

"Thousands of visitors each year come to Michigan to hunt and enjoy our great outdoors. Billions of dollars are generated for the economy every year as a result of Michigan's hunting opportunities and deer and elk related businesses. It is our collective duty to protect our amazing natural resources so that generations to come can enjoy them as well."

- ◆ Use of state forest campgrounds, pathways, and trails for off-road vehicle, snowmobile, and cross-country activities remains strong. The department maintains 6,000 miles of groomed snowmobile trails. For fiscal year 2005, the Governor proposes an additional \$1.0 million in state restricted funds to be used for snowmobile trail grooming and maintenance. These funds are available as a result of the scheduled July 1, 2004 statutory increase in the snowmobile trail permit fee from \$20.00 to \$25.00. This brings total support for various recreation programs to \$72.1 million for fiscal year 2005. The Governor also recommends a fiscal year 2004 supplemental of \$4.0 million in state restricted funds for snowmobile trail maintenance and easements.

Lt. Governor Cherry, June 2, 2003

- ◆ The Executive Recommendation provides funding for employee-related economic costs. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$12.8 million in 2005. Therefore, a savings adjustment of \$4.8 million is recommended to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation Department of Natural Resources (\$ in Thousands)	
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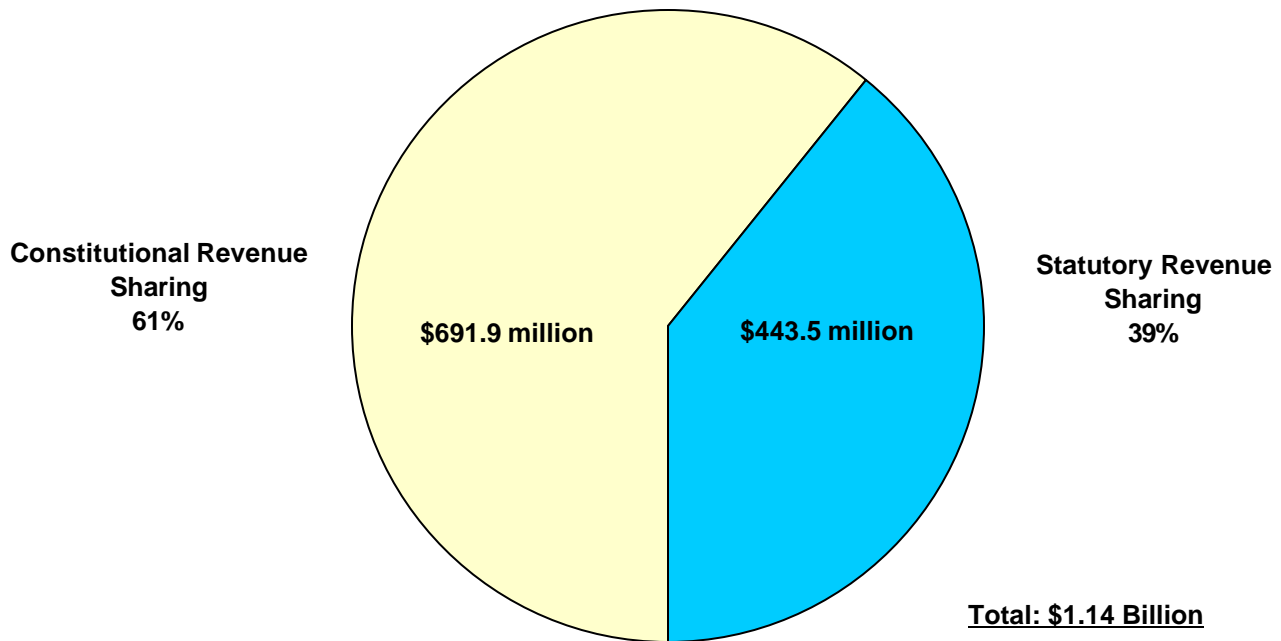
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$42,028.9	\$28,089.4	\$25,643.1
All Funds	\$262,796.1	\$253,464.0	\$253,901.1
	% change - GF/GP	-33.2%	-8.7%
	% change - All Funds	-3.6%	0.2%

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Revenue Sharing

Administered by the Department of Treasury, Michigan's revenue sharing program provides unrestricted financial support to local units of government, allowing communities to determine how best to fund local services. There are two ways that local units share in a portion of sales tax revenue: a constitutionally-dedicated portion is distributed to cities, villages and townships based on a community's population; an additional portion of sales tax revenue is earmarked in state law to provide revenue sharing payments that are subject to annual appropriation. Funding for fiscal year 2005 is recommended at \$1.14 billion, which includes \$691.9 million for constitutionally required revenue sharing payments and \$443.5 million for statutory revenue sharing payments to cities, villages and townships.

Nearly Two-Thirds of All Revenue Sharing Payments are Constitutionally-Dedicated



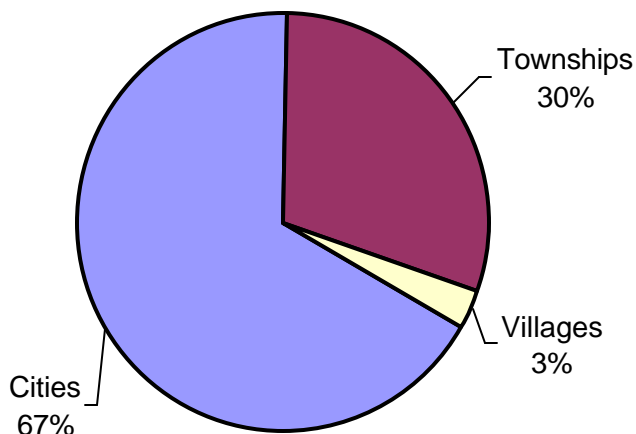
Revenue Sharing Budget Highlights

- ◆ For fiscal year 2005, Governor Granholm recommends overall revenue sharing payments equivalent to the fiscal year 2004 spending level for cities, villages and townships. Cities that have an emergency financial manager will be eligible for funding under a \$1.5 million general fund grant program, continuing fiscal relief from revenue sharing reductions contained in Executive Order 2003-23.
- ◆ The Governor also proposes to modify the property tax collection structure in 2004, by permanently shifting the county property tax levy from December to July each year. The estimated additional county revenue generated by changing the property tax collection structure is \$1.42 billion, providing enough revenue to suspend county revenue sharing payments in 2004 and beyond. Each county will be required to hold this revenue in reserve to be annually expended in lieu of state revenue sharing payments. State payments to counties will resume in the first year in which a county's property tax revenue reserve is less than the county would have otherwise received in state revenue sharing payments.

Suspending county revenue sharing payments in fiscal year 2005 allows \$183.5 million to be redirected to other areas of the state budget. An equivalent amount is available each year through fiscal year 2009, when it is estimated that four counties will become eligible for renewed revenue sharing payments. Revenue sharing payments will continue to be phased in through fiscal year 2027.

- ◆ The Governor also recommends that the revenue sharing statute be changed to require that a portion of the revenue sharing appropriation be used for payments-in-lieu-of-taxes to local units of government for lands owned by the Department of Natural Resources. The state's obligation for these tax payments, estimated to be \$7.5 million in 2005, will be paid from the revenue sharing appropriation. The remainder of the revenue sharing funds will be distributed as unrestricted financial support to cities, villages and townships. This change results in savings for the state general fund as well as for state restricted funds, including Game and Fish funds, Natural Resources Trust Fund revenues, and Waterways funds. These fee-supported funds, all managed by the Department of Natural Resources, can be reinvested in conservation and recreational activities more consistent with the purpose for which the fees were originally collected.

Fiscal Year 2005 Recommended Revenue Sharing Distribution



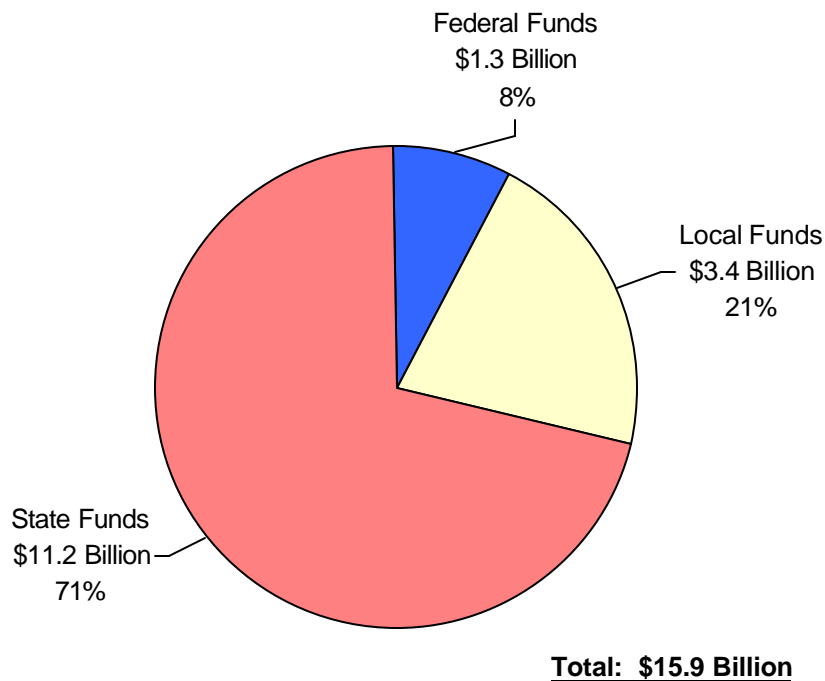
Fiscal Year 2005 Governor's Recommendation			
Revenue Sharing (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$0.0	\$0.0	\$0.0
All Funds	\$1,470,500.0	\$1,335,824.2	\$1,135,400.0
	% Change - GF/GP	0.0%	0.0%
	% Change - All Funds	-9.2%	-15.0%

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School Aid

The State School Aid budget is critical to a continued high quality of life in Michigan. A successful preschool and K-12 system ensures an educated citizenry who care about the welfare of others and who are the engines of our economic future. The Governor's fiscal year 2005 school aid budget totals nearly \$12.5 billion, \$11.2 billion of state funds and \$1.3 billion of federal funds, essentially unchanged from the current year. In addition, schools are estimated to receive \$3.4 billion from local property taxes.

School Aid Estimated State, Federal and Local Revenues



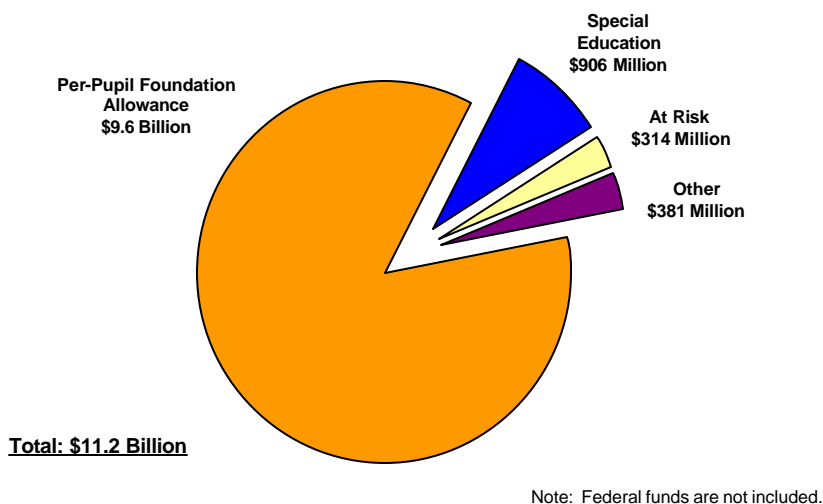
School Aid Budget Highlights

Foundation Allowance

The Governor's fiscal year 2005 school aid budget funds the minimum foundation allowance at \$6,700 per pupil – a level first promised in fiscal year 2003, but which has never been achieved due to the drag of a national recession on Michigan's economy. This will be an effective increase of \$74 per pupil over the current year pro-rated minimum of \$6,626.

Districts dealing with declining enrollments will realize increased revenues from a change in the pupil membership formula. Instead of the existing formula that emphasizes the current year's pupil count, the fiscal year 2005 pupil membership formula is restored back to a 50/50 blend of the prior year's winter pupil count and the current year's fall count, as it was in the first year of Proposal A implementation. Payments to districts with a foundation allowance greater than \$9,000 per pupil continue to be funded at current year payment levels. These actions result in savings of \$43.0 million and \$6.6 million, respectively.

Over 85% of State Funding Supports the
Per-Pupil Foundation Allowance



Student Support Payments

Funding for children in need of special education services exceeds \$1.2 billion in this budget: \$906.3 million in state funds (an increase of \$23.6 million) and \$345.5 million in federal funds.

Services for academically at-risk children are protected by maintaining \$314.2 million in state funding targeted to those children. In addition, over \$427.0 million in federal funds are targeted to schools in need of supplemental support to improve student achievement.

Administrative Efficiency

The fiscal year 2005 budget also encourages elimination of duplicative administrative and overhead costs at the local district level by providing a financial incentive of up to \$500,000 for each school district consolidation or annexation, capped at \$1.0 million statewide.

Project Great Start

The Governor's *Project Great Start* embodies her preschool agenda for children from birth to age 5. The school aid budget alone contains over \$83.0 million for this initiative, including \$72.8 million for the school readiness program. These funds, in addition to \$12.3 million appropriated in the Department of Education budget, provide preschool opportunities for over 25,000 four-year-olds.

Project Great Start includes an expansion of the Great Parents, Great Start program operated by intermediate school districts for all children from birth to five. Funding is increased from \$3.3 million to \$10.0 million for these programs to promote early literacy, improve school readiness, and encourage positive parenting skills. Intermediate district general operations funding is reduced by \$6.7 million to pay for this increase. The Governor is also working with Central Michigan University and private sponsors to expand both the content and the distribution of R.E.A.D.Y. Kits to parents of preschoolers.

In addition, \$250,000 in the school aid budget is combined with \$524,000 in the Department of Community Health budget to provide community-based prevention services that encourage healthy family environments for children from birth through three years of age.

Learn to Earn

The Governor recommends \$1.0 million to initiate a planning process for the implementation of Learn to Earn Centers. Learn to Earn Centers are specialized high schools operated by intermediate districts for students who have dropped out of traditional high schools. They are focused on integrating academic knowledge with technical content, allowing students to complete their high school education in an environment that encourages them to prepare for careers of their choice. Employers, labor representatives and postsecondary institutions will be active partners in these ventures. In addition, \$39.0 million in state funding is maintained for traditional vocational education programs.

*"...Because we have high expectations of **all** Michigan's children, we will relentlessly and firmly bring them back. We will say to those tens of thousands of children who drop out every year: we will not give up on you, and **you** may not give up on yourself."*

Governor Granholm, State of the State Message, January 27, 2004

Funding of \$20.0 million is maintained for adult education programs in this budget. The Governor recommends programmatic changes to encourage regional planning for adult education services, to provide participants with individualized education plans, to require adequate job and postsecondary education counseling services, and to increase the payment incentive for successful student achievement.

Pension Rate

Although pension costs for school employees will increase in fiscal year 2005, the pension system will absorb some of those additional costs. Retirement rate charges to schools will increase 1.88 percent to 14.87 percent. This limited increase will save districts over \$138.0 million in costs that they would otherwise have incurred.

Other Changes

Other budget changes include an increase in School Bond Loan Fund debt payments from \$28.3 million to \$41.1 million, and an increase of \$6.2 million in statutorily required Renaissance Zone reimbursements. Funding for the Freedom to Learn initiative has been reduced to \$22.3 million (\$17.3 million federal and \$5.0 million state funding) to reflect anticipated spending levels.

Fiscal Year 2005 Governor's Recommendation
School Aid
(\$ in Thousands)

	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$380,056.3	\$327,700.0	\$131,800.0
All Funds	\$12,503,505.8	\$12,375,969.0	\$12,479,910.2
	% Change - GF/GP	-13.8%	-59.8%
	% Change - All Funds	-1.0%	0.8%

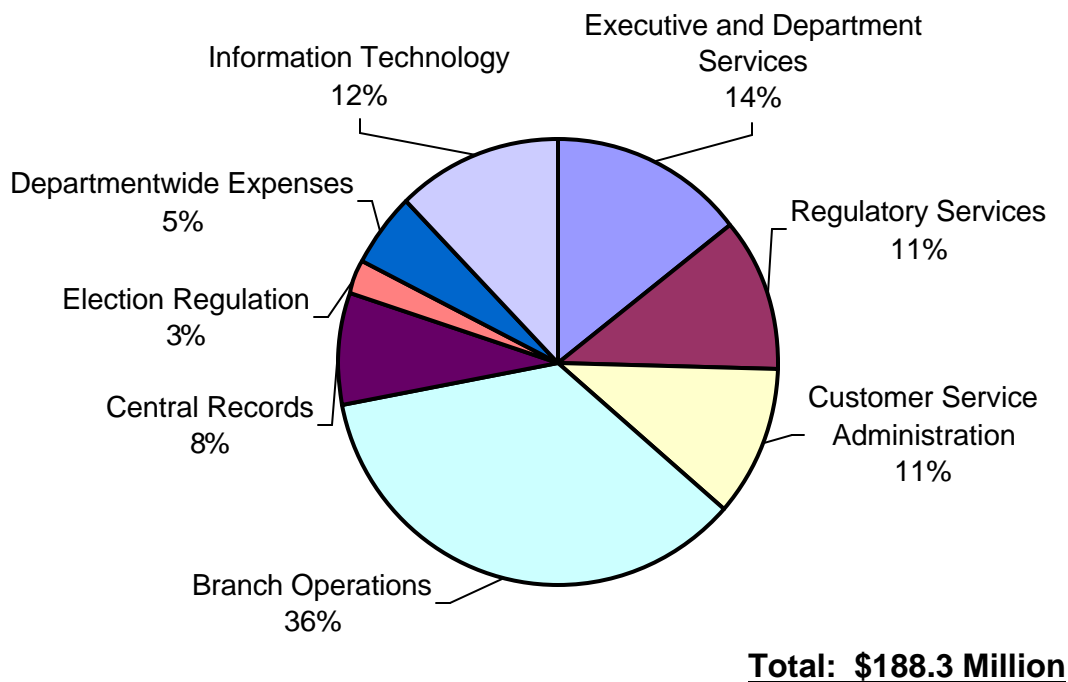
Program	GF/GP	All Funds
State Programs		
Proposal A Guarantee (1995 foundation levels)	\$0.0	\$6,665,000.0
Discretionary Payment	\$110,616.0	\$2,900,000.0
Special Education State Funding	\$0.0	\$906,283.0
At Risk Children Services	\$0.0	\$314,200.0
Intermediate School District General Operations	\$0.0	\$84,028.1
Project Great Start School Readiness Grants	\$200.0	\$72,800.0
School Bond Loan Fund Debt Service	\$0.0	\$41,100.0
Vocational Education	\$0.0	\$39,000.0
Renaissance Zone Reimbursement	\$13,400.0	\$36,200.0
Durant-related Cash and Bond Payments	\$0.0	\$32,141.0
Freedom to Learn	\$5,000.0	\$22,343.2
School Lunch Payments	\$0.0	\$21,095.1
Adult Education	\$0.0	\$20,000.0
Great Parents/Great Start Program	\$0.0	\$10,000.0
Court Placed Children Funding	\$0.0	\$8,000.0
Bilingual Education	\$0.0	\$2,800.0
Math/Science Centers	\$84.0	\$2,500.0
Bus Driver Safety	\$0.0	\$1,625.0
Center for Education Performance & Information	\$1,500.0	\$1,500.0
ISD Learn to Earn Center Planning Grants	\$0.0	\$1,000.0
Michigan Virtual High School & Technology Project	\$750.0	\$750.0
Advanced & Accelerated Programs	\$0.0	\$250.0
Project Great Start 0-3 Preventative Services	\$250.0	\$250.0
Federal Programs		
No Child Left Behind Act Programs	\$0.0	\$676,370.3
Special Education Federal Funding	\$0.0	\$345,500.0
School Lunch Payments	\$0.0	\$274,631.0
Other Federal Funding	\$0.0	\$543.5
Total FY 2005 Recommendation	\$131,800.0	\$12,479,910.2

Department of State

The Department of State administers Michigan's motor vehicle programs including titling, registering vehicles, licensing drivers, and monitoring driver performance. The Secretary of State supervises state elections and administers state election laws.

The Governor's proposed budget for fiscal year 2005 recommends total funding of \$188.3 million, of which \$15.3 million is general fund.

FY 2005 Spending by Category



Department Priorities

- Fiscal resource optimization: Maximize the use of every existing resource (staffing, dollars and assets) to provide the best service to Michigan residents.
- Customer satisfaction and enhancement: Meet or exceed the public's expectations for service quality, responsiveness, courtesy and short wait times.
- Employee satisfaction and fulfillment: Ensure that employees are equipped to perform assigned tasks efficiently and effectively and understand how their contributions influence and add to the value of the organization.
- Election administration optimization: Use every resource available to ensure the integrity of Michigan's elections process and that every vote cast is accurately counted.

Department of State Budget Highlights

- ◆ The Governor recommends funding for the Department of State at \$188.3 million gross, \$15.3 million general fund. These funds will be used to support department operations and efforts to improve customer service. In order to improve efficiency and reduce costs, the department has increased the use of alternative customer service transactions. By using the Web, telephone or mail, customers can conduct business without having to visit a branch office. The number of customer service transactions provided in alternative ways increased 17 percent in 2003.

In an effort to make all citizens aware of the department's online services, the department is promoting the Web address by incorporating its www.Michigan.gov/sos on branch office signs to highlight online services. To help customers understand the benefits of doing business online, an awareness campaign titled "Skip the Trip! Save Time, Renew Online!" has been successfully launched.

- ◆ The fiscal year 2005 recommendation reflects the transfer of the driver education programs and \$528,000 from the Department of Education. Major responsibilities will include approval of the driver education courses and approval of driver education instructors in both school district and proprietary driver training programs.
- ◆ Enhancing the efficiency and integrity of Michigan's voting process ensures that everyone has the opportunity to vote. The federal Help America Vote Act (HAVA) offers Michigan the opportunity to upgrade its elections process. Michigan has selected the optical scan method as the statewide voting standard. Outdated systems still in use in some counties (e.g. paper ballots and punch cards) will be upgraded to this more modern technology. More than \$45.0 million of federal funding under HAVA has been made available to pay for the state's conversion to the updated technology. Some voting jurisdictions will have completed their migration to optical scan voting technology in time for the 2004 general election. All precincts must be converted by 2006. The Executive Recommendation includes an increase of \$395,300 general fund for maintenance costs of the Qualified Voter File.
- ◆ The Governor recommends using restricted revenues in lieu of general tax revenues for an upgrade of the department's mainframe technology system, thereby saving \$1.0 million general fund. The budget also reduces overall information technology spending by \$936,800 in recognition of other operational efficiencies.
- ◆ The Governor also recommends \$400,000 to cover costs associated with the regulation of notaries as specified in the recently enacted Michigan Notary Public Act, P.A. 238 of 2003.
- ◆ The Executive Recommendation provides funding for employee-related economic costs. Due to the state's current revenue problems, the state is unable to fully fund the anticipated costs of staff salaries, insurance and retirement, which are projected to increase by \$11.0 million in 2005. Therefore, a savings adjustment of \$3.7 million is recommended to partially offset these costs.

Fiscal Year 2005 Governor's Recommendation Department of State (\$ in Thousands)			
	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$18,141.2	\$16,698.5	\$15,321.4
All Funds	\$243,228.0	\$181,088.3	\$188,266.0
	% Change - GF/GP	-8.0%	-8.2%
	% Change - All Funds	-25.5%	4.0%

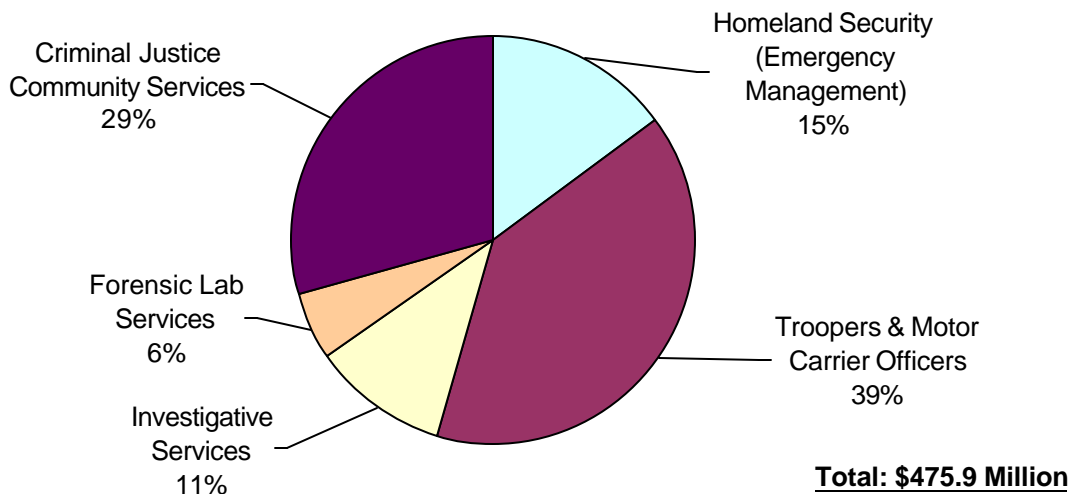
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Department of State Police

The Department of State Police provides leadership, coordination, and delivery of law enforcement services throughout the state. Through up-to-date training and technology, the Michigan State Police protect the residents of Michigan, reducing the opportunities for crime and ensuring a safe environment.

The Governor's proposed budget for fiscal year 2005 recommends total operations funding for the department of \$475.9 million, of which \$245.5 million is general fund. The fiscal year 2005 recommendation provides additional federal support for various programs and increases restricted resources where available.

State Police Provide Statewide Law Enforcement Services



Department Priorities

- Provide for homeland security.
- Provide state troopers and motor carrier officers for general law enforcement, crime prevention, and traffic safety.
- Provide specialized investigative support to assist in solving crimes.
- Provide forensic laboratory services including DNA analysis, fingerprint analysis, trace evidence, toxicology, bomb squad response, and court testimony.
- Support the statewide criminal justice community by promoting data sharing and access to enhanced applications that improve the quality of information available to them.

State Police Budget Highlights

The Governor's commitment to public safety is reflected through support for troopers at a funding level of \$117.4 million. This funding, in conjunction with a 100 candidate state trooper school beginning in late fiscal year 2004, and implementation of the deferred retirement option plan for command officers, will support 1,100 troopers during fiscal year 2005.

- ◆ An additional \$1.5 million in state restricted revenue is available to support state troopers for road patrol. Due to the elimination of the Drivers Education Program in 2004, a portion of existing operator, chauffeur, and commercial license fee revenue will be redirected to State Police, saving an equal amount of general fund dollars.
- ◆ Forensic science plays a major role in solving crimes. The Michigan State Police collect DNA samples from all convicted felons, which are used to identify the guilty and exculpate the innocent. The Governor's budget recommendation includes an additional \$1.0 million to assist in reducing the backlog of DNA cases awaiting analysis.
- ◆ Additional state restricted revenues of \$129,700 are available to support the Michigan Commission on Law Enforcement Standards. These resources reimburse local law enforcement agencies for the costs of mandatory basic police training. All county, city, village, and township law enforcement agencies are eligible for this program.
- ◆ The Governor's fiscal year 2005 budget recommends an additional \$800,000 in revenue from the Commercial Mobile Radio Service Emergency Telephone Fund. The Emergency Telephone Service Enabling Act, P.A. 244 of 2003, authorizes funding for administration of regional dispatch centers that receive and dispatch 9-1-1 calls. This additional revenue will be used to support numerous facility upgrades to the regional dispatch centers located in Bridgeport, Gaylord, Negaunee, Paw Paw, Rockford, and Detroit. A related savings of \$430,000 general fund will be realized through the consolidation of four regional dispatch centers into two dispatch centers.
- ◆ The Governor's recommended budget for fiscal year 2005 provides an additional \$1.2 million in federal Emergency Management Performance Grant support. These resources will primarily be used to continue state police homeland security efforts, while a portion will be distributed to local units of government.
- ◆ The proposed budget includes an increase of \$31.1 million for employee-related economic costs. Like other state agencies, however, the State Police budget includes a savings adjustment of \$8.6 million to help offset these costs.
- ◆ A total of \$1.0 million in savings to the general fund will be achieved through the cost allocation of various administrative expenses to available restricted and federal funds.

Fiscal Year 2005 Governor's Recommendation
Department of State Police
(\$ in Thousands)

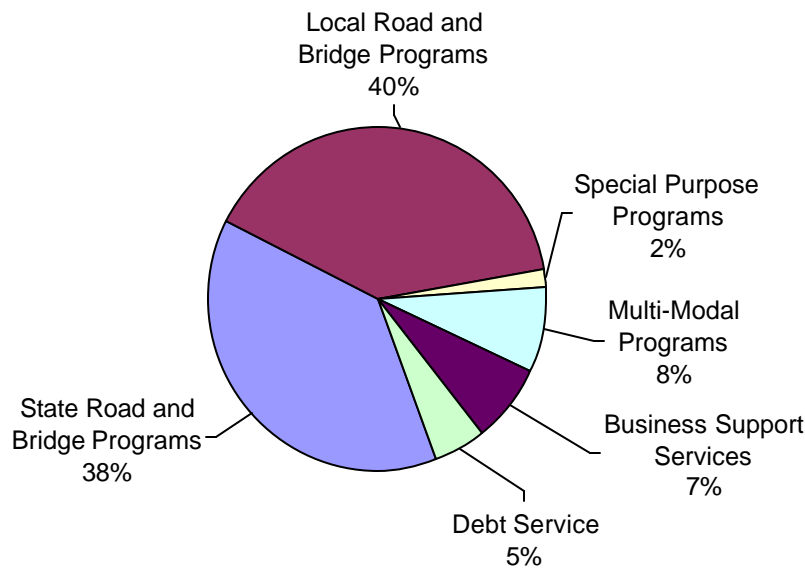
	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$275,681.1	\$233,056.9	\$245,458.5
All Funds	\$474,382.0	\$452,179.3	\$475,924.2
	% Change - GF/GP	-15.5%	5.3%
	% Change - All Funds	-4.7%	5.3%

Program	GF/GP	All Funds
Troopers and Motor Carrier Officers	\$120,560.1	\$188,120.0
Criminal Justice Community Services	\$69,980.0	\$139,704.9
Homeland Security and Emergency Management	\$1,717.7	\$70,857.9
Investigative Services	\$33,658.5	\$51,056.0
Forensic Lab Services	\$19,542.2	\$26,185.4
* Adjusted for program transfers.		
Total FY 2005 Recommendation	\$245,458.5	\$475,924.2

Department of Transportation

Michigan's multi-modal transportation system contributes to the quality of life for citizens in a variety of ways – providing a critical network of roads and bridges for vehicular travel, establishing an essential backbone of public transportation services for seniors, disabled and other transit-dependent populations, promoting rail passenger and freight travel, supporting marine transportation and maritime development, preserving economically important international border crossings, and enhancing the safety and security of aviation at key airport locations throughout the state. More than at any time in its history, the Department of Transportation is partnering with local stakeholders and the public to create a collective vision for the future of multi-modal transportation in Michigan. The Governor's proposed budget for fiscal year 2005 recommends total funding of \$3.3 billion, an increase of 5.9 percent, all non-general fund resources.

Forty Percent of Budget Supports Local Roads and Bridges



Department Priorities

- Continue to focus on a balanced program that preserves Michigan's existing transportation system, and responds to growth and development opportunities in a fiscally and environmentally sound manner.
- Partner with local units of government to utilize an asset management system to strategically target statewide road and bridge investments.
- Increase the efficiency and availability of mass transportation in Michigan.
- Be a national leader in developing innovative strategies to improve the safety, operations, and security of our transportation system.
- Continue focus on customer service by improving access, safety and the operational responsiveness of the existing transportation system.
- Continue to work with the transportation communities in Michigan and Ontario to implement the goals identified at the 2003 Transportation Summit.

Transportation Budget Highlights

- ◆ The State Constitution creates a dedicated source of revenue for transportation programs from state motor fuel and vehicle registration taxes deposited in the Michigan Transportation Fund. These revenues are expected to total \$2.04 billion in fiscal year 2005, an overall decrease of 2.8 percent. The decrease reflects the removal of one-time revenues added in the current year. Baseline motor fuel and vehicle registration revenues, however, remain strong growing at an estimated 2.9 percent in fiscal year 2005.
- ◆ Michigan also anticipates receiving over \$1.1 billion in federal aid to support road and bridge construction, statewide research and planning, and public transportation programs. The Transportation Equity Act of the 21st Century (TEA-21) authorizing federal transportation programs officially expired on September 30, 2003. Congress has temporarily extended this authorization through February 29, 2004. Governor Granholm strongly supports the expedient passage of a new six-year transportation bill that rectifies our state's donor status and returns a minimum of 95 percent of federal funds to Michigan for highways and public transit. The Executive Recommendation assumes a modest growth of 3.2 percent in federal funds in anticipation of the reauthorization.
- ◆ Governor Granholm's budget recommendation continues the strong commitment to repairing and maintaining existing state trunkline roads and bridges within a constrained and fiscally responsible program. Over \$998.0 million will be available for state road and bridge construction in fiscal year 2005. Maintenance activities on over 9,700 miles of state trunkline highways will total \$253.7 million, an increase of \$9.4 million over current year levels.
- ◆ Highlighting the Governor's Recommendation is an additional \$25.6 million for local critical bridge repairs resulting from the re-direction of one-half of one cent of the state gasoline tax currently dedicated to state trunkline bridge repairs. Splitting the penny with local units of government fulfills a promise Governor Granholm made to the residents of Michigan to improve critical local bridges. The Governor is also firmly committed to critical bridge program reforms that will place an emphasis on preventative maintenance and rehabilitation to ensure the program is cost-effectively managed and overall local bridge system condition is improved. These reforms will benefit motorists who rely on the over 110,700 miles of local roads to provide access to jobs, education, health care, and recreation opportunities.

- ◆ The Governor recommends \$242.3 million for Comprehensive Transportation Fund programs in fiscal year 2005, a decrease of \$4.1 million or 1.8 percent, resulting largely from a reduction in the vehicle-related sales tax allocation to the Comprehensive Transportation Fund in fiscal years 2004 and 2005. These revenues are being temporarily re-directed to the general fund to assist with the overall budget shortfall. Comprehensive Transportation Funds support local public transit, intercity bus, rail passenger, specialized services for seniors and disabled citizens, and rail freight preservation programs. The Governor's recommendation includes an additional \$4.6 million in federal funds to support rural operating and capital assistance, specialized services, and transportation to work programs.

 - ◆ Stabilizing revenues in the State Aeronautics Fund will allow for the re-investment of \$6.4 million in several aeronautics programs in fiscal year 2005, including equipment for the All-Weather Access Program and restoration of support for the Air Service Program. These programs complement the over \$222.0 million recommended for airport safety and protection plan improvements at local airport facilities included in the Capital Outlay bill.

 - ◆ Based on a comparison with New York, Pennsylvania, Indiana, Illinois, Ohio and Minnesota, the Department of Transportation is one of the most efficient state transportation agencies in the country, with Michigan leading its peers in program dollars per employee and lane miles per employee. The Department is also managing double the capital program with over 20 percent fewer employees than 10 years ago. Building on this efficiency, the fiscal year 2005 budget will reduce the department's dependence on private consultants by shifting more design and environmental assessment work in-house, thus saving an estimated \$6.0 million annually that can be re-directed into road and bridge repair.
- *"It's an understatement to say that Team MDOT is working in the rain -- in fact they are working in the snow at 2:00 a.m. on I-75 and on the windy towers of the Mackinac Bridge -- all while helping us to preserve our economic vitality and quality of life."*

Governor Granholm, February 6, 2004

-
- ◆ The Executive Recommendation includes an increase of \$34.6 million to fund employee-related economic increases. Due to current budgetary pressures, however, the state is unable to fully fund these increases in employee salaries, insurance, and pension expenses. Therefore, the budget includes a savings adjustment of \$8.7 million to help offset these costs.

Fiscal Year 2005 Governor's Recommendation
Department of Transportation
(\$ in Thousands)

	FY03 Appropriation	FY04 Current Law	FY05 Recommended
GF/GP	\$0.0	\$0.0	\$0.0
All Funds	\$3,106,591.4	\$3,107,818.7	\$3,292,487.6
	% Change - GF/GP	0.0%	0.0%
	% Change - All Funds	0.0%	5.9%

Program	GF/GP	All Funds
STATE ROAD AND BRIDGE PROGRAMS		
State Road & Bridge Repair and Reconstruction	\$0.0	\$998,020.7
State Road & Bridge Maintenance	\$0.0	\$253,726.1
LOCAL ROAD AND BRIDGE PROGRAMS		
County Road Commissions	\$0.0	\$634,447.6
Cities and Villages	\$0.0	\$353,733.0
Local Road & Bridge Repair and Reconstruction	\$0.0	\$256,903.0
Grants to Local Programs	\$0.0	\$33,000.0
Critical Bridge Program	\$0.0	\$31,329.0
SPECIAL PURPOSE PROGRAMS		
Transportation Economic Development Fund	\$0.0	\$39,932.4
Blue Water Bridge Operations	\$0.0	\$10,656.0
Rail Grade Crossing Program	\$0.0	\$3,000.0
TRANSIT, RAIL, AND AERONAUTICS PROGRAMS		
Bus Transit Operating Assistance	\$0.0	\$176,280.0
Public Transportation Development	\$0.0	\$62,470.6
Intercity Passenger and Freight	\$0.0	\$28,627.7
Air service program	\$0.0	\$1,000.0
BUSINESS SUPPORT SERVICES		
Business Support Services	\$0.0	\$116,228.8
Design and Engineering Services	\$0.0	\$82,759.9
Planning Services	\$0.0	\$27,357.2
Public Transportation & Aeronautics Services	\$0.0	\$15,265.5
DEBT SERVICE		
Road and Bridge Programs	\$0.0	\$136,583.5
Comprehensive Transportation Programs	\$0.0	\$29,380.0
Airport Safety and Protection Plan	\$0.0	\$1,786.6
Total FY 2005 Recommendation	\$0.0	\$3,292,487.6

Department of Treasury

The Department of Treasury is responsible for the administration of the state tax system, including tax collections, the investment of state funds, and safeguarding the credit rating of the state and local governments. The department forecasts state revenue, monitors economic activity, administers property tax laws, audits county and municipal financial records, and provides oversight of gaming and lottery operations. The department also administers revenue sharing payments to local units of government and manages student financial aid programs.

Filing taxes in Michigan and receiving a tax refund is quicker and easier, primarily because of the department's efforts to automate tax filing. Taxpayers have access to electronic filing (*e-file*), direct deposit, automated telephone help lines, and an option to download tax forms from the Internet or receive forms by fax. Electronic filing includes an on-line error correction system that reduces the possibility of taxpayer error and shortens the waiting period for refunds. Direct deposit also means shorter processing time and greater security for the taxpayer. An electronically filed return gives taxpayers their refunds within seven to ten days.

The Governor's fiscal year 2005 budget recommendation for the Department of Treasury totals \$1.6 billion, which includes over \$1.1 billion for revenue sharing payments to local units of government (see page B-87).

Department Priorities

Improve customer satisfaction by continuing to:

- increase electronic tax filing;
- reduce timeframes for tax appeals;
- improve accuracy of written advice;
- increase Web-enabled self-service for taxpayers; and
- work with financially distressed cities.

Maintain financial integrity of the state through:

- prudent management of common cash and general obligation bond debt;
- compliance with investor protection principles in management of the pension funds; and
- accurate forecasting of revenues used as the basis for budget decisions.

Increase revenue collections by:

- instituting a business self-audit service and cash-based transaction audits;
- identifying out-of-state vendors with tax liability in Michigan;
- recovering local tax revenues statutorily due the state;
- using data and statistical sampling system and partnerships with other federal/state agencies to collect delinquent tax and state agency debt; and
- reviewing existing laws to identify unintended revenue loss consequences.

Treasury Budget Highlights

- ◆ The fiscal year 2005 Executive Recommendation, excluding revenue sharing and debt service, provides \$369.5 million gross, \$58.6 million general fund, to manage the state tax system that collects \$22.0 billion in revenue and processes \$18.5 billion in tax expenditures.
- ◆ The fiscal year 2005 recommendation increases payments to local units of government. These increases include \$5.5 million in additional restricted revenue for Convention Facility Development Distributions, an increase of \$1.2 million general fund for senior citizen cooperative housing tax exemption payments, \$328,000 general fund for increased Renaissance Zone reimbursements, and \$2.5 million in restricted revenue for commercial mobile radio service (CMRS) emergency telephone payments to expand 9-1-1 services.
- ◆ Public Act 237 of 2003 provided an additional \$8.1 million in the current year for enhanced tax revenue recovery initiatives through increased audits as well as improved tax collection and processing systems. The Executive Recommendation continues this initiative but removes one-time start-up funding of \$550,000.
- ◆ The appropriation for Qualified Agricultural Loans is reduced by \$3.2 million to reflect anticipated fiscal year 2005 loan payments, as well as unexpended balances from the current year.
- ◆ The Executive Recommendation contains \$81.4 million for debt service obligations. This includes \$22.2 million for new requirements associated with Quality of Life Bonds, partially funded with \$10.8 million in available Cleanup and Redevelopment Funds. The Governor also recommends an additional \$3.1 million to fund debt obligations for Clean Michigan Initiative (CMI) bonds.
- ◆ The Executive Recommendation transfers \$27.4 million to the Department of Education to implement Executive Order 2003-20, which transferred responsibility for the Michigan Educational Assessment Program (MEAP) to that department. In addition, the departments of Treasury and Management and Budget have agreed to combine their internal audit functions for increased efficiency. The Executive Recommendation transfers 4 positions and \$425,000 to the Department of Management and Budget.
- ◆ This budget includes funding for employee-related salaries, fringe benefits and pension costs, which are projected to increase by \$13.6 million in 2005. To partially offset these costs, a savings adjustment of \$4.2 million is recommended.

Fiscal Year 2005 Governor's Recommendation
Department of Treasury
(\$ in Thousands)

	FY03* Appropriation	FY04* Current Law	FY05 Recommended
GF/GP	\$75,310.0	\$117,214.7	\$129,125.4
All Funds	\$1,875,746.8	\$1,747,792.6	\$1,586,327.3
	% Change - GF/GP	55.6%	10.2%
	% Change - All Funds	-6.8%	-9.2%

Program	GF/GP	All Funds
Revenue Sharing to Local Units of Government	\$0.0	\$1,135,400.0
Grants to Local Units of Government	\$29,220.3	\$135,220.3
Debt Service Payments	\$70,563.1	\$81,450.4
Tax Programs	\$4,329.8	\$61,615.7
State Lottery	\$0.0	\$40,055.3
Student Financial Assistance Programs	\$1,569.4	\$34,232.9
Banking and Technology	\$7,711.6	\$28,260.9
Casino Gaming	\$0.0	\$18,005.3
Information Technology	\$5,182.7	\$16,712.8
Retirement Investments	\$0.0	\$12,345.0
Local Government Operations	\$5,842.5	\$11,336.3
Departmentwide Appropriations	\$3,227.5	\$6,562.2
Michigan Merit Awards Administration	\$0.0	\$2,580.4
Administration	\$1,148.5	\$1,449.1
Common Cash Investment and Debt Management	\$330.0	\$1,100.7
* Adjusted for program transfers.		
Total FY 2005 Recommendation	\$129,125.4	\$1,586,327.3

Background Information

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Web site address for this document: <http://www.michigan.gov/budget>

Fiscal Year 2005
Sources and Uses of General Fund/General Purpose
(in millions)

Estimated Beginning Fund Balance, October 1, 2004 \$0.0

REVENUES:

Adjusted January Consensus Net Revenues \$8,424.8

Proposed Adjustments:

County Revenue Sharing \$183.5

Interfund Borrowing Rates 20.0

Liquor Mark-Up 31.8

Total Sources of Funds \$8,660.1

EXPENDITURES:

Fiscal Year 2005 Executive Recommendation \$8,655.0

Total Uses of Funds \$8,655.0

Ending Fund Balance, September 30, 2005 \$5.1

Fiscal Year 2005
Sources and Uses of All Funds
(in millions)

Estimated Beginning Unreserved Fund Balance, October 1, 2004 \$335.5

REVENUES:

Fiscal Year 2005 Revenue Estimate \$38,791.5

Adjustments Included in Revenue Estimate:

Liquor Mark-up	\$38.9
Interfund Borrowing Rates	20.0
Cigarette Tax Increase	449.0
Estate Tax	94.4
Forgive SET for state lands	-2.0
County Revenue Sharing	183.5

Other Adjustments:

Fee/Fine Increases \$1.6

TOTAL REVENUES \$38,793.1

Total Sources of Funds **\$39,128.6**

EXPENDITURES:

Fiscal Year 2005 Executive Recommendation	\$39,703.4
Less: Interdepartmental Grants and Transfers	(633.6)

Total Uses of Funds **\$39,069.8**

Excess of Sources Over Uses **\$58.8**

Consensus Economic Outlook

The economic and revenue outlook were agreed to at the January 14, 2004, Consensus Revenue Estimating Conference by the Administration, House Fiscal Agency, and Senate Fiscal Agency.

2003 U.S. Economic Review

Two years after the 2001 recession ended, the U.S. economy appears to have finally gained traction. While the buildup to war in Iraq had slowed the U.S. economy, the U.S. economy has strengthened considerably since the end of major hostilities. The Conference Board's index of leading economic indicators has risen every month since mid-2003. Similarly, the Institute for Supply Management's indices signaled strengthening not only in the services sector but in the hard-hit manufacturing sector as well.

Until recently, the economic recovery had been missing two key elements: business investment growth and an employment recovery. By the end of 2003, these two previously missing elements appeared to be emerging. Between the first quarter of 2001 and first quarter of 2003, business investment had declined every quarter. However, business investment reported solid growth in the second quarter of 2003 and rapid growth in the third quarter. While moderating in the fourth quarter, investment is estimated to report its third straight quarter of growth.

Similarly, several recent indicators suggest that the U.S. jobs market, which has lagged nearly every other post-World War II recovery, may be on the mend. Wage and salary employment has risen five straight months through December. However, the gains are below expectations given the recent strong economic data. Initial unemployment claims have fallen below the 350,000 level and the four-week average is at its lowest level since the beginning of the 2001 recession. While manufacturing employment continues to decline, those declines have moderated. ISM employment indices are now signaling increased hiring in both the manufacturing and services sectors. While employment indicators are becoming positive, the employment picture still remains unstable as businesses may continue to seek higher productivity gains instead of creating more jobs.

2003 Michigan Economic Review

Michigan's economy has been disproportionately hit by the U.S. slowdown. The decline in Michigan wage and salary employment from its peak has been three times more severe than the national decline from its peak. In 2003, Michigan wage and salary employment declined by an estimated 1.2 percent, marking the third straight year of employment declines. Michigan's unemployment rate rose to an estimated 7.1 percent. Michigan wages and salaries income reported mild growth, compared with essentially flat growth in 2002. Personal income grew slightly faster in 2003 than in 2002.

2004 and 2005 U.S. Consensus Economic Outlook

Real GDP is forecast to grow 4.6 percent in 2004 and 3.7 percent in 2005, up from the estimated 3.1 percent growth in 2003 (See Table L-1).

High levels of productivity, business investment, and increased consumer and business confidence will help support growth moving forward. A growing but uncertain job market and low capacity utilization rates may restrain growth.

Light vehicle sales are forecast to be 16.8 million units in 2004 and 16.9 million units in 2005. Inflation is projected to remain moderate at 1.9 percent and 2.5 percent in 2004 and 2005, respectively. Interest rates are forecast to rise but still remain at historically low levels.

With the labor market's recovery lagging the overall economic recovery, the U.S. unemployment rate is projected to rise to 6.0 percent in 2003 before falling to 5.6 percent in 2004 and 5.3 percent in 2005.

2004 and 2005 Michigan Consensus Economic Outlook

Michigan wage and salary employment is forecast to increase slightly in 2004 and post more moderate gains in 2005. After three straight years of decline, wage and salary employment is projected to rise 0.5 percent in 2004 and 1.8 percent in 2005.

Michigan's unemployment rate is forecast to rise slightly to 7.2 percent in 2004 before declining to 6.4 percent in 2005.

Michigan personal income is forecast to increase 4.5 percent in 2004, up from the estimated 2.6 percent increase in 2003. In 2005, personal income is estimated to increase 5.9 percent. Inflation, as measured by the Detroit CPI, is forecast to be 1.9 percent in 2004 and rise 2.4 percent in 2005. As a result, real Michigan personal income (inflation adjusted) is expected to rise 2.6 percent in 2004 and grow 3.4 percent in 2005.

In FY 2004, Michigan wages and salaries are expected to grow by 2.4 percent and then accelerate to 4.6 percent growth in FY 2005. Disposable income is expected to rise 5.1 percent both in FY 2004 and FY 2005. The inflation rate is expected to remain moderate at 1.8 percent in FY 2004 and 2.3 percent in FY 2005.

Forecast Risks

Most risks to the economic forecast are on the downside. If the labor market continues to remain weak, consumption spending and business and consumer confidence will decline. Job growth will remain a key component to a continued U.S. expansion and Michigan recovery. Manufacturing employment is forecast to remain somewhat stable. Continuing declines in manufacturing employment could hinder economic growth, especially in Michigan.

While light vehicle sales have remained at strong levels and are forecast to remain near 17.0 million units, Big Three market share continues to decline. If import and transplant vehicles keep substantially chipping away Big Three market share, the Michigan economy may be disproportionately hurt.

Given the extremely high current account balance, the value of the U.S. dollar is vulnerable. If foreign investors sharply reduce their dollar holdings, the value of the U.S. dollar could decline sharply. A rapidly falling dollar, while helping the manufacturing sector and exports, could also spur inflation and lead to instability for U.S. financial markets. Excess capacity continues to remain at high levels and may restrain growth if business confidence declines and anticipated investment does not occur.

Table L-1
Consensus Economic Forecast
January 2004

	Calendar 2002 Actual	Calendar 2003 Forecast	Percent Change from Prior Year	Calendar 2004 Forecast	Percent Change from Prior Year	Calendar 2005 Forecast	Percent Change from Prior Year
United States							
Real Gross Domestic Product (Billions of Chained 1996 Dollars)	\$9,440	\$9,731	3.1%	\$10,178	4.6%	\$10,555	3.7%
Implicit Price Deflator GDP (1996 = 100)	110.7	112.4	1.6%	113.9	1.3%	116.1	2.0%
Consumer Price Index (1982-84 = 100)	179.9	184.0	2.3%	187.5	1.9%	192.2	2.5%
Personal Consumption Deflator (1996 = 100)	111.1	113.2	1.9%	115.1	1.7%	117.7	2.2%
3-month Treasury Bills Interest Rate (percent)	1.6	1.0		1.5		2.9	
Aaa Corporate Bonds Interest Rate (percent)	6.5	5.7		5.7		5.8	
Unemployment Rate - Civilian (percent)	5.8	6.0		5.6		5.3	
Light Vehicle Sales (millions of units)	16.7	16.6	-0.6%	16.8	1.2%	16.9	0.6%
Passenger Car Sales (millions of units)	8.1	7.7	-4.7%	7.8	1.3%	7.8	0.0%
Light Truck Sales (millions of units)	8.6	8.9	3.3%	9.0	1.1%	9.1	1.2%
Import Share of Light Vehicles (percent)	19.7	20.2		19.2		19.1	
Michigan							
Wage and Salary Employment (thousands)	4,476	4,424	-1.2%	4,446	0.5%	4,526	1.8%
Unemployment Rate (percent)	6.2	7.1		7.2		6.4	
Personal Income (millions of dollars)	\$303,745	\$311,667	2.6%	\$325,692	4.5%	\$344,908	5.9%
Real Personal Income (millions of 1982-84 dollars)	\$169,785	\$170,296	0.3%	\$174,641	2.6%	\$180,611	3.4%
Wages and Salaries (millions of dollars)	\$173,529	\$175,070	0.9%	\$180,147	2.9%	\$188,253	4.5%
Detroit Consumer Price Index (1982-84 = 100)	178.9	183.0	2.3%	186.5	1.9%	191.0	2.4%
Detroit CPI Fiscal Year (1982-84 = 100)	177.5	182.1	2.6%	185.4	1.8%	189.7	2.3%

Revenue Estimates

Fiscal Year 2003 Revenue

The economic slowdown continued in FY 2003 reducing the growth rate of many taxes. On a Consensus basis, FY 2003 General Fund-General Purpose (GF-GP) revenues totaled \$7,957.7 million. FY 2003 marked the third consecutive year of decline for GF-GP revenues, with revenues down 18.7 percent from their FY 2000 peak. FY 2003 School Aid Fund (SAF) revenues totaled \$10,714.7 million, up 5.7 percent from FY 2002. FY 2003 SAF revenues benefited from a change in the timing of state education tax payments, which generated approximately \$450 million in additional revenue. Without this change, FY 2003 SAF revenues would have been up approximately 1.3 percent.

Fiscal Year 2004 and Fiscal Year 2005 Revenue Estimates

On January 14, 2004, the Administration and the House and Senate Fiscal Agencies reached a consensus on projected revenues for FY 2004 and FY 2005. Agreement was reached on baseline revenue forecasts and the impact of enacted tax cuts. The January 2004 Consensus revenue estimates are used for the Governor's *Executive Budget*. The economic and revenue forecasts will be reviewed again at the May consensus conference before the final budget bills are passed by the Legislature.

For FY 2004, baseline GF-GP revenue is forecast to increase by 1.3 percent and baseline SAF revenue is forecast to increase 2.3 percent. After enacted tax cuts are included, net GF-GP revenue on a Consensus basis is expected to decline by 1.3 percent to \$7,857.5 million in FY 2004. Factoring in proposed changes and other budget measures, GF-GP is expected to total \$8,660.1 million. Net SAF revenue on a Consensus basis is expected to decrease by 1.2 percent to \$10,584.3 million. The FY 2004 SAF revenue decline is due to the timing shift in state education tax collections made in FY 2003, which boosted FY 2003 collections. Including transfers, federal aid, proposed changes, and other budget measures, FY 2004 SAF revenue will total \$12,376.0 million.

Baseline FY 2005 revenues for GF-GP are forecast to grow 4.0 percent and, SAF baseline revenues are also forecast to grow 4.0 percent. After enacted tax cuts, net GF-GP revenue on a Consensus basis is expected to be \$7,822.8 million, a 0.4 percent decline from FY 2004. Proposed changes will increase FY 2005 GF-GP revenue to \$8,660.1 million. On a Consensus basis, net SAF revenue is expected to increase to \$10,998.5 million after enacted tax cuts, 3.9 percent above FY 2004. Proposed changes, federal aid, and transfers will increase FY 2005 SAF revenue to \$12,479.9 million.

Overall FY 2005 Revenue

Total net revenue for all funds is estimated to be \$38.7 billion in FY 2005. Table on page C- 8 presents a summary of revenues by fund. The Detailed Statement of General and Special Revenue Funds presents information for FY 2002 through FY 2005.

Projected Revenues
FY 2004 - 2005
(millions)

	<u>FY 2004 - 2005</u>
General Fund - General Purpose	
Consensus Estimate	7,822.8
Total Adjustments	837.3
Total General Fund - General Purpose	<u>8,660.1</u>
School Aid Fund	
Consensus Estimate	10,998.5
Transfers and Federal Aid	1,446.2
Total Adjustments	35.2
Total SAF Revenue	<u>12,479.9</u>
Transportation Funds	
Consensus Estimate	4,626.9
General Fund - Special Purpose	12,740.7
Special Revenue and Permanent Funds	<u>752.5</u>
Sub-Total All Funds	39,260.1
Other Revenue Sources	<u>487.3</u>
Gross Total All Resources	39,747.4
Less Interfund Transfers (excluding GF-GP)	<u>(1,096.5)</u>
Net Total All Resources	\$ 38,650.9

Office of Revenue and Tax Analysis
Michigan Department of Treasury
February 2004

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
GENERAL FUND - GENERAL PURPOSE REVENUE				
TAXES				
Individual Income ⁽¹⁾	5,680,770,356	5,511,399,842	5,555,500,000	5,667,400,000
Less: Refunds	(1,391,209,352)	(1,550,493,934)	(1,633,700,000)	(1,670,300,000)
Net Individual Income	4,289,561,004	3,960,905,908	3,921,800,000	3,997,100,000
Single Business	1,983,329,688	1,842,902,327	1,878,700,000	1,962,500,000
Sales ⁽²⁾	132,304,892	390,733,829	114,200,000	119,400,000
Use	868,289,348	819,601,849	838,400,000	867,800,000
Insurance Company Premium Retaliatory	227,074,905	231,058,800	247,000,000	261,000,000
Cigarette Excise ⁽³⁾	194,900,473	289,167,812	286,200,000	128,000,000
Utility Property	138,960,416	125,653,173	120,600,000	120,600,000
Penalties and Interest	148,907,929	128,697,418	109,000,000	110,000,000
Intangibles	524,969	(1,404,303)	0	0
Estate / Inheritance	131,028,763	98,562,214	70,000,000	34,000,000
Beer and Wine Excise	50,012,089	51,114,376	51,500,000	52,000,000
Oil and Gas Severance	30,681,912	47,851,592	43,000,000	40,000,000
Liquor Specific ⁽⁴⁾	29,915,224	31,114,911	31,300,000	31,600,000
Other	606,424	(269,388)	0	0
Enhanced Enforcement and ACS ⁽⁵⁾	(83,739,590)	(77,283,990)	(80,000,000)	(80,000,000)
TOTAL GF - GP TAXES	8,142,358,446	7,938,406,528	7,631,700,000	7,644,000,000

⁽¹⁾ See also Special Purpose Revenue.

⁽²⁾ See Special Purpose Revenue, School Aid Fund, and Comprehensive Transportation Fund.

⁽³⁾ See also Special Purpose Revenue and School Aid Fund.

⁽⁴⁾ See also School Aid Fund.

⁽⁵⁾ Restricted revenues supporting Treasury collection activities are shown here as negatives.

Prepared by Office of Revenue and Tax Analysis, Michigan Department of Treasury

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
GENERAL FUND - GENERAL PURPOSE REVENUE				
NON-TAX REVENUE				
Federal Aid	24,726,949	216,240,955	30,000,000	30,000,000
Local Agencies	751,269	922,717	1,000,000	1,000,000
Services	5,232,620	8,517,536	8,000,000	8,000,000
Licenses & Permits	16,452,485	16,866,359	18,000,000	18,000,000
Miscellaneous	133,559,770	194,711,504	87,800,000	89,800,000
Interest and Investment Profits	1,171,652	498,246	(50,000,000)	(100,000,000)
TOTAL GF - GP NON-TAX REVENUE	181,894,744	437,757,317	94,800,000	46,800,000
TRANSFERS FROM OUTSIDE GF & SR FUNDS				
Other Interfund Transfers Received	794,912,546	385,269,704	54,900,000	54,900,000
Liquor Purchase Revolving Fund	118,241,671	126,837,161	120,000,000	121,000,000
Transfers From Lottery Charitable Gaming and Other Funds	12,066,168	11,233,294	11,000,000	11,000,000
Unclaimed and Abandoned Property	31,901,673	0	0	0
TOTAL GF - GP TRANSFERS	957,122,058	523,340,159	185,900,000	186,900,000
General Fund - General Purpose Summary				
GF - GP Tax Revenue	8,142,358,446	7,938,406,528	7,631,700,000	7,644,000,000
GF - GP Non-Tax Revenue	181,894,744	437,757,317	94,800,000	46,800,000
GF - GP Transfers	957,122,058	523,340,159	185,900,000	186,900,000
TOTAL GENERAL FUND-GENERAL PURPOSE before Interfund Transfers	9,281,375,248	8,899,504,004	7,912,400,000	7,877,700,000
LESS: Interfund Transfers	(794,912,546)	(385,269,704)	(54,900,000)	(54,900,000)
CONSENSUS TOTAL GENERAL FUND-GENERAL PURPOSE	8,486,462,702	8,514,234,300	7,857,500,000	7,822,800,000
BUDGET ADJUSTMENTS				
Revenue Sharing Savings	NA	NA	289,700,000	355,400,000
Federal Aid	NA	NA	169,000,000	0
Other Budget Adjustments	NA	NA	192,600,000	0
Bad Driver Assessments	NA	NA	65,000,000	121,500,000
Driver License Fees	NA	NA	25,900,000	25,000,000
Increased Enforcement Revenue	NA	NA	55,100,000	85,100,000
Escheats Law Change	NA	NA	15,000,000	15,000,000
TOTAL ENACTED ADJUSTMENTS	NA	NA	812,300,000	602,000,000
ADJUSTMENTS RECOMMENDED IN EXECUTIVE BUDGET				
County Revenue Sharing	NA	NA	NA	183,500,000
Interfund Borrowing Rates	NA	NA	NA	20,000,000
Liquor Mark-Up	NA	NA	NA	31,800,000
TOTAL PROPOSED ADJUSTMENTS	NA	NA	0	235,300,000
TOTAL GENERAL FUND-GENERAL PURPOSE WITH ADJUSTMENTS	8,486,462,702	8,514,234,300	8,669,800,000	8,660,100,000
Excluding interfund transfers to GF-GP				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL	ACTUAL	ESTIMATES	ESTIMATES
	FY 2001 - 2002	FY 2002 - 2003	FY 2003 - 2004	FY 2004 - 2005
GENERAL FUND-SPECIAL PURPOSE REVENUE				
TAXES				
Airport Parking	13,644,223	15,058,560	15,100,000	15,900,000
Cigarette - Health & Safety Fund - Counties	27,286,725	69,800,449	27,211,000	26,807,000
Cigarette - Health & Safety Fund - Indigent Care	8,627,461	13,174,802	6,803,000	6,803,000
Cigarette - Healthy Michigan	35,528,629	30,536,381	52,600,000	82,312,900
Cigarette - Medicaid Benefits Trust Fund	NA	NA	25,100,000	443,800,000
Commercial Mobile Radio Service	24,733,579	28,061,928	31,100,000	31,100,000
Estate Tax - Medicaid Benefits Trust Fund	NA	NA	NA	94,400,000
Horse Race Wagering	12,480,762	11,823,194	11,251,000	11,051,000
Individual Income Tax Campaign Fund	1,235,283	1,864,911	1,500,000	1,500,000
Income Tax Credit Expenditure	559,100,000	707,800,000	0	0
Sales Tax Revenue Sharing	1,526,999,789	1,262,053,520	1,605,000,000	1,674,300,000
Revenue Sharing Savings	NA	NA	(289,700,000)	(355,400,000)
County Revenue Sharing	NA	NA	NA	(183,500,000)
Sales Tax-Health Initiative	6,512,000	9,000,000	9,000,000	9,000,000
Use Tax Prescription Drug Credit	2,182,500	0	0	0
Convention Hotel Accommodation	45,954,105	45,721,423	48,749,000	52,061,000
Various Tax Out-of-Period Refunds	3,197,669	3,863,895	848,000	848,000
Enhanced Enforcement and ACS	83,739,590	77,283,990	80,000,000	80,000,000
TOTAL GF - SP TAXES	2,351,222,316	2,276,043,053	1,624,562,000	1,990,982,900
NON-TAX REVENUE				
Local Agencies	114,841,974	106,072,973	80,353,000	94,734,000
Special Medicaid Reimbursement	1,109,233,391	932,658,051	615,473,800	326,162,800
Services	115,772,879	112,098,630	121,768,000	122,771,000
Licenses & Permits	216,907,578	225,990,862	282,944,000	283,302,000
Miscellaneous	370,220,633	575,045,324	689,690,000	682,500,000
Transfers From Other Funds	195,974,080	290,924,036	54,833,000	54,094,000
TOTAL GF - SP NON-TAX REVENUE	2,122,950,534	2,242,789,876	1,845,061,800	1,563,563,800

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
GENERAL FUND-SPECIAL PURPOSE REVENUE				
FEDERAL AID NOT ELSEWHERE ITEMIZED:				
Federal Aid: Agriculture	7,091,528	9,748,793	14,402,000	33,406,000
Federal Aid: Attorney General	3,562,454	3,024,486	9,000,000	9,292,400
Federal Aid: Capital Outlay (excluding Transportation)	2,357,355	12,568,037	46,952,000	50,842,000
Federal Aid: Career Development	365,067,513	350,899,484	0	0
Federal Aid: Civil Rights	1,181,603	1,278,029	934,000	934,000
Federal Aid: Civil Service	2,850,059	185,967	4,779,000	4,779,000
Federal Aid: Community Health	4,905,363,764	5,185,798,276	5,380,899,000	4,987,951,800
Federal Aid: Consumer and Industry Services	33,713,391	32,180,569	169,818,000	0
Federal Aid: Corrections	21,825,128	21,334,178	27,798,000	9,808,000
Federal Aid: Education	862,998,127	88,597,035	65,877,000	60,655,000
Federal Aid: Environmental Quality	39,011,049	42,936,377	131,260,000	133,767,000
Federal Aid: Family Independence Agency	2,568,799,628	2,668,801,119	2,709,978,000	3,041,369,000
Federal Aid: Higher Education - Grants	3,554,734	4,331,145	4,481,000	4,500,000
Federal Aid: Judiciary	3,596,906	2,669,671	4,107,000	3,816,000
Federal Aid: History, Arts and Libraries	6,126,294	6,605,544	9,323,000	8,151,000
Federal Aid: Labor and Economic Growth	NA	NA	581,582,400	646,842,900
Federal Aid: Management and Budget	65,041	0	740,800	444,600
Federal Aid: Military Affairs	41,870,807	42,579,712	40,628,000	45,418,000
Federal Aid: Natural Resources	23,009,049	22,409,404	33,707,000	34,629,000
Federal Aid: State	0	0	1,320,000	1,391,000
Federal Aid: State Police	34,741,275	40,973,078	103,892,000	106,191,000
Federal Aid: Treasury	212,176	5,989,533	12,799,000	2,000,000
TOTAL FEDERAL AID excluding Transportation	8,926,997,877	8,542,910,438	9,354,277,200	9,186,187,700
General Fund - Special Purpose Summary				
GF - SP Tax Revenue	2,351,222,316	2,276,043,053	1,624,562,000	1,990,982,900
GF - SP Non-Tax Revenue	2,122,950,534	2,242,789,876	1,845,061,800	1,563,563,800
GF - SP Federal Aid	8,926,997,877	8,542,910,438	9,354,277,200	9,186,187,700
TOTAL GENERAL FUND-SPECIAL PURPOSE	13,401,170,727	13,061,743,367	12,823,901,000	12,740,734,400
LESS: Interfund Transfers	(195,974,080)	(290,924,036)	(54,833,000)	(54,094,000)
NET TOTAL GENERAL FUND-SPECIAL PURPOSE	13,205,196,647	12,770,819,331	12,769,068,000	12,686,640,400
Excluding inter-fund transfers to GF-SP				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
SCHOOL AID FUND REVENUE				
TAXES and LOTTERY				
Sales Tax	4,695,252,625	4,681,369,531	4,824,700,000	5,029,200,000
Use Tax	435,721,732	410,200,924	419,100,000	433,800,000
Income Tax Earmarking	1,860,362,376	1,847,754,857	1,899,600,000	1,985,900,000
State Education Tax	1,583,660,439	2,127,513,288	1,745,200,000	1,858,200,000
Real Estate Transfer Tax	253,075,049	275,513,103	274,700,000	273,000,000
Cigarette Excise Tax	386,061,509	471,847,701	463,700,000	456,800,000
Other Tobacco Products Tax	17,509,464	17,247,719	16,000,000	16,000,000
Industrial & Commercial Facilities Tax	152,321,612	161,154,601	166,000,000	167,000,000
Casino Wagering Tax	91,914,569	90,944,599	94,500,000	97,300,000
Liquor Excise Tax	29,141,385	30,604,622	31,300,000	31,600,000
Other Specific Taxes	15,313,893	14,570,324	14,800,000	14,800,000
Sub-Total SAF Taxes	9,520,334,652	10,128,721,270	9,949,300,000	10,363,500,000
NON-TAX REVENUE				
Transfer from Lottery Ticket Sales	613,530,186	586,047,630	635,000,000	635,000,000
Federal Aid	183,018,813	1,069,510,894	1,316,700,000	1,314,388,000
Local Revenue	0	0	0	0
Transfer from Counter-Cyclical Budget & Economic Stabilization	382,000,000	32,000,000	0	0
Transfer from General Fund	198,091,139	380,056,300	327,700,000	131,800,000
Recovery of Prior Year State Aid and Receivables	14,709,304	18,756,612	0	0
Sub-Total SAF Other Source Revenues	1,391,349,442	2,086,371,437	2,279,400,000	2,081,188,000
TOTAL SCHOOL AID FUND before Interfund Transfers	10,911,684,094	12,215,092,707	12,228,700,000	12,444,688,000
LESS: Interfund Transfers	(580,091,139)	(412,056,300)	(327,700,000)	(131,800,000)
TOTAL SCHOOL AID FUND after Interfund Transfers	10,331,592,955	11,803,036,407	11,901,000,000	12,312,888,000
Excluding inter-fund transfers to School Aid Fund				
BUDGET ADJUSTMENTS				
Personal Property Tax Amnesty	NA	NA	5,000,000	0
Increased Enforcement Revenue	NA	NA	28,600,000	35,500,000
TOTAL ENACTED ADJUSTMENTS	0	0	33,600,000	35,500,000
ADJUSTMENTS PROPOSED IN EXECUTIVE BUDGET				
Payments in Lieu of Taxes	NA	NA	NA	(2,000,000)
Liquor Mark Up	NA	NA	NA	1,700,000
TOTAL PROPOSED ADJUSTMENTS	NA	NA	0	(300,000)
NET TOTAL SCHOOL AID FUND WITH ADJUSTMENTS	10,331,592,955	11,803,036,407	11,934,600,000	12,348,088,000
Excluding interfund transfers to School Aid Fund				

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
SPECIAL REVENUE FUNDS				
Bottle Deposits ^(e)	32,083,299	27,625,589	25,514,000	20,314,000
Conservation and Recreation Bond Proceeds	40,695,458	201,589,818	150,000	0
Game and Fish Protection ^(e)	65,239,526	65,425,821	62,583,000	62,559,000
Game and Fish Protection Trust	12,011,668	11,438,221	10,491,000	10,544,000
Forest Development	23,541,300	20,902,863	21,154,000	22,000,000
Marine Safety Trust	5,258,501	5,571,827	4,805,000	4,804,000
Michigan State Waterways ^(e)	24,695,094	27,712,889	23,612,000	24,049,000
Nongame Fish and Wildlife ^(e)	652,259	506,236	565,000	561,000
State Park Improvement	31,737,771	31,472,036	32,736,000	33,491,000
MI Underground Storage Tank Financial Assistance	64,550,639	61,231,905	0	0
Construction Code	8,377,677	8,004,177	11,712,000	8,359,000
Construction Lien	428,948	350,818	3,405,000	407,000
Employment Security Administration ^(e)	133,506,472	141,014,012	107,733,400	92,772,100
Safety, Education & Training	6,970,518	7,374,183	7,669,000	7,713,000
Workplace Health & Safety	479,307	0	0	0
State Casino Gaming	28,523,705	28,659,147	30,045,000	30,138,000
Counter-Cyclical Budget & Economic Stabilization ^(e)	20,794,010	10,917,354	0	0
Merit Award Trust	248,569,873	245,579,042	206,300,000	205,200,000
Tobacco Settlement Trust	86,881,064	80,817,847	69,300,000	69,100,000
Miscellaneous Special Revenue Funds	173,720	290,166	100,900	100,900
Transportation Administration Collection Fund	NA	NA	68,100,000	68,100,000
Traffic Law Enforcement and Safety Fund	NA	NA	26,100,000	31,041,300
PERMANENT FUNDS				
Children's Trust ^(e)	2,980,524	2,541,164	2,765,000	3,294,100
Civilian Conservation Corps Endowment	1,208,701	858,162	1,012,000	1,012,000
Natural Resources Trust	47,618,630	58,945,160	48,959,000	38,347,000
State Park Endowment ^(e)	16,433,042	14,136,655	15,990,000	16,310,000
Veterans Trust	2,880,618	2,279,353	2,276,000	2,276,000
TOTAL SPECIAL REVENUE AND PERMANENT FUNDS	906,292,324	1,055,244,246	783,077,300	752,492,400
LESS: Interfund Transfers	(53,774,544)	(86,009,283)	(35,638,000)	(35,692,000)
NET TOTAL SPECIAL REVENUE AND PERMANENT FUNDS	852,517,780	969,234,962	747,439,300	716,800,400

Excluding inter-fund transfers to Special Revenue Funds

^(e) Includes Transfers in.

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
TRANSPORTATION: AERONAUTICS FUND 114				
Aviation Fuel Tax	6,698,836	7,401,938	7,600,000	7,800,000
Federal Aid	106,090,339	75,039,027	160,000,000	160,000,000
Local Agencies	16,350,609	12,271,612	43,019,000	42,790,000
Transfers and Other	26,479,245	27,646,727	7,457,000	7,548,000
TOTAL AERONAUTICS FUND	155,619,029	122,359,305	218,076,000	218,138,000
TRANSPORTATION: TRUNKLINE FUND 116				
Federal Aid	567,186,786	552,140,554	886,054,700	1,072,401,200
Local Agencies	31,514,046	28,589,458	33,447,000	33,397,000
Licenses and Permits	15,794,277	17,989,924	19,180,000	19,090,000
Transfer from Michigan Transportation & Other Funds	830,787,688	792,640,856	764,163,800	703,026,500
Interest from Common Cash Investment	8,050,427	7,133,075	7,740,000	9,675,000
Other	28,865,873	31,222,379	17,132,000	17,234,000
TOTAL TRUNKLINE FUND	1,482,199,097	1,429,716,245	1,727,717,500	1,854,823,700
TRANSPORTATION: BLUE WATER BRIDGE FUND 118				
Tolls and Rentals	11,136,125	12,007,362	12,700,000	13,000,000
Interest From Common Cash Investment and Other	341,921	246,247	306,000	383,000
TOTAL BLUE WATER BRIDGE TRANSPORTATION FUND	11,478,046	12,253,610	13,006,000	13,383,000
TRANSPORTATION: MICHIGAN TRANSPORTATION FUND 119				
Diesel and Motor Carrier Fuel Tax	142,966,364	156,923,935	160,600,000	164,600,000
Gasoline and Liquefied Petroleum Gas Tax	939,803,136	936,232,494	950,800,000	972,800,000
Motor Vehicle Registration Tax	827,347,381	844,695,019	919,100,000	831,800,000
Licenses, Permits, Other and Transfers	59,622,016	58,867,126	62,010,000	62,510,000
Interest From Common Cash Investment	4,495,589	3,687,642	4,860,000	6,075,000
TOTAL MICHIGAN TRANSPORTATION FUND	1,974,234,486	2,000,406,215	2,097,370,000	2,037,785,000
TRANSPORTATION: COMPREHENSIVE TRANSPORTATION FUND 120				
Sales Tax (Includes effect of earmarking reduction)	78,819,126	79,440,334	67,785,000	68,817,000
Federal Aid	27,789,164	25,522,913	55,700,000	60,300,000
Transfer from Michigan Transportation & Other Funds	161,768,964	163,728,925	168,803,500	171,936,600
Interest From Common Cash Investment and Other	2,317,688	4,584,677	1,818,000	1,758,000
TOTAL COMPREHENSIVE TRANSPORTATION FUND	270,694,942	273,276,849	294,106,500	302,811,600
TRANSPORTATION BOND PROCEEDS	362,405,697	69,186,100	209,783,000	200,000,000
TOTAL TRANSPORTATION REVENUE	4,256,631,296	3,907,198,324	4,560,059,000	4,626,941,300
LESS: Interfund Transfers	(992,556,652)	(956,369,781)	(932,967,300)	(874,963,100)
NET TOTAL TRANSPORTATION REVENUE After Transfers	3,264,074,644	2,950,828,543	3,627,091,700	3,751,978,200

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
General Fund Summary				
General Fund - General Purpose	9,281,375,248	8,899,504,004	7,912,400,000	7,877,700,000
General Fund - General Purpose Budget Adjustments	0	0	812,300,000	837,300,000
General Fund - Special Purpose	13,401,170,727	13,061,743,367	12,823,901,000	12,740,734,400
TOTAL GENERAL FUND	22,682,545,975	21,961,247,371	21,548,601,000	21,455,734,400
LESS: Interfund Transfers	(990,886,626)	(676,193,740)	(109,733,000)	(108,994,000)
NET TOTAL GENERAL FUND after transfers	21,691,659,349	21,285,053,631	21,438,868,000	21,346,740,400
Other Funds Summary				
School Aid Fund	10,911,684,094	12,215,092,707	12,228,700,000	12,444,688,000
School Aid Fund - Budget Adjustments	0	0	33,600,000	35,200,000
Special Revenue and Permanent Funds	906,292,324	1,055,244,246	783,077,300	752,492,400
Transportation Revenues	4,256,631,296	3,907,198,324	4,560,059,000	4,626,941,300
TOTAL OTHER FUNDS	16,074,607,714	17,177,535,276	17,605,436,300	17,859,321,700
LESS: Interfund Transfers	(1,626,422,335)	(1,454,435,365)	(1,296,305,300)	(1,042,455,100)
NET TOTAL OTHER FUNDS after transfers	14,448,185,379	15,723,099,912	16,309,131,000	16,816,866,600
All Funds Summary				
Net General Fund	21,691,659,349	21,285,053,631	21,438,868,000	21,346,740,400
Net Other Funds	14,448,185,379	15,723,099,912	16,309,131,000	16,816,866,600
NET TOTAL REVENUE after transfers	36,139,844,728	37,008,153,542	37,747,999,000	38,163,607,000

DETAILED STATEMENT OF GENERAL AND SPECIAL REVENUE FUNDS

	ACTUAL FY 2001 - 2002	ACTUAL FY 2002 - 2003	ESTIMATES FY 2003 - 2004	ESTIMATES FY 2004 - 2005
NET TOTAL REVENUE after transfers	36,139,844,728	37,008,153,542	37,747,999,000	38,163,607,000
OTHER REVENUE OR NON-CURRENT YEAR SOURCES OF FINANCING				
General Fund Unreserved Balance	28,072,000	114,500,000	174,000,000	0
School Aid Fund Unreserved Balance	694,796,000	237,010,000	113,668,000	0
Special Revenue and Permanent Funds Balances (Available)	295,968,000	173,689,000	105,088,000	105,088,000
Budgeted Non-revenue Items				
Liquor Operations	15,290,460	11,977,764	18,394,000	26,234,000
Lottery Operations	32,481,058	32,375,330	39,014,000	40,955,600
Retirement Operations	26,746,064	24,208,459	28,914,000	31,332,800
Michigan Higher Education Assistance and Student Loan Authorities	22,349,706	18,856,485	31,397,000	32,682,000
Michigan State Industries	14,161,834	14,127,558	16,321,000	17,542,000
State Building Authority & Capital Outlay Reserve	139,444,542	147,401,126	154,796,000	155,581,000
Group Insurance Fund, Flexible Spending & COBRA	7,042,130	5,780,736	7,884,000	8,362,000
Michigan State Housing Development Authority	18,547,127	19,445,890	19,294,000	15,183,100
Michigan Strategic Fund Agency	37,154,535	42,783,700	52,953,300	53,014,300
Mackinac Island State Park Fund	868,622	769,635	1,313,000	1,372,000
Sub-Total Budgeted Non-revenue Items and Fund Balances	1,332,922,078	842,925,683	763,036,300	487,346,800
NET TOTAL RESOURCES	37,472,766,806	37,851,079,225	38,511,035,300	38,650,953,800

FY 2005 Fee/Fine Increases

Department	Program/Fee	Revenue Generated	
Community Health	Vital Records Fees	\$	1,502,600
	Department Total	\$	1,502,600
Treasury	Assessor Fees	\$	\$80,000
	Department Total	\$	\$80,000
Grand Total		\$	1,582,600

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2005 Budget Recommendation
10.664	Cooperative Forestry Assistance	
	Grantee: Natural Resources	6,899,200
	Grantee: Agriculture	1,000,000
16.580	Anti Drug Abuse Act--Byrne Memorial Zero Tolerance	
	Grantee: Community Health	20,188,900
	Subrecipient State Agency: State Police	8,047,100
	Subrecipient State Agency: Corrections	255,700
	Subrecipient State Agency: Attorney General	364,500
16.588	Violence Against Women Formula Grants	
	Grantee: Family Independence Agency	3,684,000
	Subrecipient State Agency: State Police	375,200
	Subrecipient State Agency: Judiciary	175,000
16.727	Enforcing Underage Drinking Laws	
	Grantee: State Police	563,800
	Subrecipient State Agency: Judiciary	50,000
17.207	Employment Service	
	Grantee: Labor & Economic Growth	34,003,805
	Subrecipient State Agency: Unemployment Agency	529,200
	Subrecipient State Agency: Management and Budget	440,800
17.503	Occupational Safety and Health-State Program	
	Grantee: Labor & Economic Growth	9,698,500
	Subrecipient State Agency: Attorney General	262,000
20.600	State and Community Highway Safety	
	Grantee: State Police	12,487,000
	Subrecipient State Agency: Community Health	1,837,200
	Subrecipient State Agency: Judiciary	215,300
66.460	Nonpoint Source Implementation Grants	
	Grantee: Environmental Quality	6,500,000
	Subrecipient State Agency: Agriculture	113,000
66.801	Hazardous Waste Management State Program Support	
	Grantee: Environmental Quality	3,537,800
	Subrecipient State Agency: Agriculture	150,000

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2005 Budget Recommendation
81.041	State Energy Program Grantee: Labor & Economic Growth Subrecipient State Agency: Agriculture	4,091,100 997,600
84.002	Adult Education-State Program Grantee: Labor & Economic Growth Subrecipient State Agency: Corrections Subrecipient State Agency: Family Independence Agency	19,326,600 1,867,900 150,000
84.013	Title I Program for Neglected and Delinquent Children Grantee: Education Subrecipient: Education via School Aid Subrecipient State Agency: Family Independence Agency Subrecipient State Agency: Management & Budget Subrecipient State Agency: Corrections	4,585,300 427,165,000 437,200 835,000 515,100
84.027	Special Education-Grants to States Grantee: Education Subrecipient: Education via School Aid Subrecipient State Agency: Management & Budget Subrecipient State Agency: Family Independence Agency Subrecipient State Agency: Corrections	16,103,900 284,850,000 150,000 132,800 99,900
84.048	Vocational Education-Basic Grants to States Grantee: Labor & Economic Growth Subrecipient State Agency: Corrections Subrecipient State Agency: Family Independence Agency	47,689,300 274,000 97,200
84.181	Special Ed-Grants for Infants and Families with Disabilities Grantee: Education Subrecipient State Agency: Family Independence Agency	620,000 204,000
84.186	Safe and Drug-Free Schools and Communities-State Grants Grantee: Education Subrecipient: Education via School Aid Subrecipient State Agency: Community Health Subrecipient State Agency: Management & Budget Subrecipient State Agency: Family Independence Agency	373,200 16,472,300 5,779,800 73,000 495,000
84.214	Title I, Migrant Grants Grantee: Education via School Aid Subrecipient State Agency: Management & Budget	8,999,900 46,800

CAPPED FEDERAL FUNDS SHARED BETWEEN DEPARTMENTS

Capped Sources of Federal Funds Shared Between State Departments

CFDA Number	Title	FY2005 Budget Recommendation
84.357	Reading First Grants	
	Grantee: Education via School Aid	23,063,700
	Subrecipient State Agency: Management & Budget	63,000
93.558	Temporary Assistance For Needy Families	
	Grantee: Family Independence Agency	791,580,700
	Subrecipient State Agency: Labor & Economic Growth	41,530,200
	Subrecipient State Agency: Community Health	17,025,000
	Subrecipient State Agency: Civil Service Cost Allocated	2,800,000
	Subrecipient State Agency: Judiciary	50,000
93.568	Low-Income Home Energy Assistance	
	Grantee: Family Independence Agency	114,467,700
	Subrecipient State Agency: Treasury	2,000,000
93.596	Child Care and Development Fund	
	Grantee: Family Independence Agency	145,629,000
	Subrecipient State Agency: Community Health	703,400
	Subrecipient State Agency: Education	500,000
93.991	Preventive Health and Health Services Block Grant	
	Grantee: Department of Community Health	5,090,300
	Subrecipient State Agency: Family Independence Agency	1,100,000

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2005 Budget Recommendation
Bottle Deposits Fund	
Environmental Quality	25,401,100
Treasury	250,000
Comprehensive Transportation Fund	
Transportation	242,336,600
Attorney General	137,000
Civil Service	90,000
Management & Budget	60,500
Legislative Auditor General	25,200
Treasury	5,300
History, Arts & Libraries	5,900
Forest Development Fund	
Natural Resources	27,007,400
Capital Outlay	800,000
Treasury	2,100
Game and Fish Protection Fund	
Natural Resources	57,191,400
Attorney General	667,300
Management & Budget	228,000
Legislative Auditor General	21,400
History, Arts & Libraries	3,700
Treasury	3,400
Game and Fish Protection Trust Fund	
Natural Resources	6,000,000
Treasury	10,000
Healthy Michigan Fund	
Community Health	81,700,000
State Police	610,000
Treasury	2,900

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2005 Budget Recommendation
Marine Safety Fund	
Natural Resources	4,007,000
State	1,101,400
Management & Budget	23,100
Legislative Auditor General	1,900
Treasury	1,400
History, Arts & Libraries	500
Michigan Merit Award Trust Fund	
Community Health	97,200,000
Higher Education	90,750,000
Education	13,685,200
Treasury	3,358,500
Michigan Natural Resources Trust Fund	
Natural Resources	2,975,200
Treasury	24,900
Michigan Nongame Fish and Wildlife Fund	
Natural Resources	644,700
Treasury	1,600
Michigan State Parks Endowment Fund	
Natural Resources	12,067,400
Treasury	11,100
Michigan State Waterways Fund	
Natural Resources	15,020,400
Attorney General	87,100
Treasury	75,900
Management & Budget	52,700
Legislative Auditor General	5,600
History, Arts & Libraries	800
Michigan Tobacco Settlement Trust Fund	
Community Health	64,500,000
Labor & Economic Growth	10,000,000
Attorney General	366,400

SPECIAL REVENUE FUNDS SHARED BETWEEN STATE DEPARTMENTS

Fund/Department	FY2005 Budget Recommendation
Michigan Transportation Fund	
Transportation	1,103,263,700
State	20,000,000
Treasury	7,838,800
Environmental Quality	958,200
Legislative Auditor General	204,300
State Aeronautics Fund	
Transportation	11,240,600
Capital Outlay	7,256,200
Attorney General	127,100
Treasury	62,500
Civil Service	50,000
Management & Budget	34,400
Legislative Auditor General	19,600
History, Arts & Libraries	3,500
State Trunkline Fund	
Transportation	720,662,500
Capital Outlay	11,363,000
State Police	7,226,700
Attorney General	2,672,300
Civil Service	2,000,000
Management & Budget	1,240,800
Legislative Auditor General	474,600
History, Arts & Libraries	129,600
Treasury	29,100

FY05 EXECUTIVE RECOMMENDATION

DEPARTMENT/AGENCY	GROSS	IDT-IDG	ADJUSTED GROSS	FEDERAL	LOCAL	PRIVATE	STATE RESTRICTED	GF-GP	SPENDING FROM STATE SOURCES	PAYMENTS TO LOCALS
AGRICULTURE	116,641,500	10,831,700	105,809,800	33,406,200	0	138,700	40,755,500	31,509,400	72,264,900	3,380,000
ATTORNEY GENERAL	62,315,100	11,244,300	51,070,800	9,292,400	0	0	11,070,000	30,708,400	41,778,400	0
CAPITAL OUTLAY	573,148,300	2,000,000	571,148,300	210,842,000	42,790,000	0	46,214,200	271,302,100	317,516,300	21,756,200
CIVIL RIGHTS	12,791,200	0	12,791,200	934,000	0	0	0	11,857,200	11,857,200	0
CIVIL SERVICE	35,262,900	2,300,000	32,962,900	4,779,100	1,700,000	150,000	18,545,500	7,788,300	26,333,800	0
COMMUNITY HEALTH	9,802,931,200	70,543,400	9,732,387,800	4,987,951,800	840,015,900	54,976,400	1,373,364,900	2,476,078,800	3,849,443,700	1,060,142,600
CORRECTIONS	1,824,618,900	3,364,200	1,821,254,700	9,808,000	393,600	0	68,090,600	1,742,962,500	1,811,053,100	88,507,700
EDUCATION	115,553,400	1,072,100	114,481,300	60,654,600	5,198,800	701,400	19,472,200	28,454,300	47,926,500	11,015,100
ENVIRONMENTAL QUALITY	340,608,000	14,263,000	326,345,000	133,766,800	0	445,900	153,980,000	38,152,300	192,132,300	18,445,500
EXECUTIVE OFFICE	4,859,500	0	4,859,500	0	0	0	0	4,859,500	4,859,500	0
FAMILY INDEPENDENCE AGENCY	4,336,399,400	1,084,400	4,335,315,000	3,041,368,900	75,535,700	9,757,600	70,321,400	1,138,331,400	1,208,652,800	196,871,300
HIGHER EDUCATION:										
Community Colleges	285,747,000	0	285,747,000	0	0	0	0	285,747,000	285,747,000	285,747,000
Universities/Financial Aid	1,631,964,400	0	1,631,964,400	4,500,000	0	0	90,750,000	1,536,714,400	1,627,464,400	3,759,100
HISTORY, ARTS, LIBRARY	58,743,200	139,000	58,604,200	8,151,300	0	577,400	2,412,400	47,463,100	49,875,500	18,655,400
INFORMATION TECHNOLOGY	366,235,800	366,235,800	0	0	0	0	0	0	0	0
JUDICIARY	253,016,600	4,633,500	248,383,100	3,815,600	3,298,100	842,500	82,333,600	158,093,300	240,426,900	123,214,300
LABOR AND ECONOMIC GROWTH	1,219,276,600	515,200	1,218,761,400	792,629,400	15,320,900	4,140,100	297,760,900	108,910,100	406,671,000	33,822,700
LEGISLATURE	118,630,800	1,801,500	116,829,300	0	0	400,000	2,356,500	114,072,800	116,429,300	0
MANAGEMENT AND BUDGET	157,337,500	86,575,200	70,762,300	444,600	0	0	33,206,100	37,111,600	70,317,700	0
MILITARY AFFAIRS	110,466,200	603,000	109,863,200	45,418,100	0	1,282,300	25,599,800	37,563,000	63,162,800	120,000
NATURAL RESOURCES	253,901,100	3,528,700	250,372,400	34,629,300	0	2,024,300	188,075,700	25,643,100	213,718,800	13,210,200
SCHOOL AID	12,479,910,200	0	12,479,910,200	1,314,388,000	0	0	11,033,722,200	131,800,000	11,165,522,200	11,107,634,200
STATE	188,266,000	20,000,000	168,266,000	1,391,000	0	100	151,553,500	15,321,400	166,874,900	172,700
STATE POLICE	475,924,200	19,677,200	456,247,000	106,191,100	4,681,100	10,700	99,905,600	245,458,500	345,364,100	20,107,800
TRANSPORTATION	3,292,487,600	0	3,292,487,600	1,132,701,200	5,800,000	0	2,153,986,400	0	2,153,986,400	1,266,053,300
TREASURY										
Operations	369,476,900	13,172,800	356,304,100	34,681,800	964,300	0	262,095,700	58,562,300	320,658,000	1,253,714,300
Revenue Sharing	1,135,400,000	0	1,135,400,000	0	0	0	1,135,400,000	0	1,135,400,000	0
Debt Service	81,450,400	0	81,450,400	0	0	0	10,887,300	70,563,100	81,450,400	0
GRAND TOTALS	39,703,363,900	633,585,000	39,069,778,900	11,971,745,200	995,698,400	75,447,400	17,371,860,000	8,655,027,900	26,026,887,900	15,526,329,400

Percentage of State Spending from State Sources as Payments to Local Units of Government:

59.65%

GENERAL FUND

DEPARTMENT	*FY04 Original Appropriation	*FY04 Current Law	FY05 Executive Recommendation	Difference FY05 Executive Rec. from FY04 Original Approp.	% Change FY05 Executive Rec. from FY04 Original Approp.
AGRICULTURE	31,379.0	30,259.2	31,509.4	130.4	0.4%
ATTORNEY GENERAL	31,009.9	30,259.9	30,708.4	(301.5)	-1.0%
CAPITAL OUTLAY	281,302.3	252,302.5	271,302.1	(10,000.2)	-3.6%
CIVIL RIGHTS	12,183.2	11,720.2	11,857.2	(326.0)	-2.7%
CIVIL SERVICE	8,052.6	7,832.5	7,788.3	(264.3)	-3.3%
COMMUNITY HEALTH	2,563,390.9	2,657,800.5	2,476,079.0	(87,311.9)	-3.4%
CORRECTIONS	1,632,205.3	1,609,272.3	1,742,962.5	110,757.2	6.8%
EDUCATION	29,392.5	29,059.7	28,454.3	(938.2)	-3.2%
ENVIRONMENTAL QUALITY	56,196.3	53,580.8	38,152.3	(18,044.0)	-32.1%
EXECUTIVE OFFICE	4,859.5	4,859.5	4,859.5	0.0	0.0%
FAMILY INDEPENDENCE AGENCY	1,140,331.7	1,107,571.3	1,138,331.4	(2,000.3)	-0.2%
HIGHER EDUCATION:					
Community Colleges	289,013.1	276,578.6	285,747.0	(3,266.1)	-1.1%
Universities/Financial Aid	1,632,604.5	1,559,432.5	1,536,714.4	(95,890.1)	-5.9%
HISTORY, ARTS, LIBRARY	44,784.8	44,201.7	47,463.1	2,678.3	6.0%
INFORMATION TECHNOLOGY	0.0	0.0	0.0	0.0	0.0%
JUDICIARY	161,316.4	160,216.4	158,093.3	(3,223.1)	-2.0%
LABOR AND ECONOMIC GROWTH	84,868.6	68,976.3	108,910.1	24,041.5	28.3%
LEGISLATURE	115,322.4	114,072.8	114,072.8	(1,249.6)	-1.1%
MANAGEMENT AND BUDGET	36,328.9	35,828.9	37,111.6	782.7	2.2%
MILITARY AFFAIRS	37,198.8	36,328.8	37,563.0	364.2	1.0%
NATURAL RESOURCES	28,801.4	28,089.4	25,643.1	(3,158.3)	-11.0%
SCHOOL AID	282,100.0	327,700.0	131,800.0	(150,300.0)	-53.3%
STATE	16,731.7	16,698.5	15,321.4	(1,410.3)	-8.4%
STATE POLICE	245,933.2	233,056.9	245,458.5	(474.7)	-0.2%
TRANSPORTATION	0.0	0.0	0.0	0.0	0.0%
TREASURY	58,296.7	61,806.3	58,562.3	265.6	0.5%
Debt Service	72,408.4	55,408.4	70,563.1	(1,845.3)	-2.5%
TOTAL	8,896,012.1	8,812,913.9	8,655,028.1	(240,984.0)	-2.7%

*Adjusted for program transfers

GROSS

DEPARTMENT/AGENCY	*FY04 Original Appropriation	*FY04 Current Law	FY05 Executive Recommendation	Difference FY05 Executive Rec. from FY04 Original Approp.	% Change FY05 Executive Rec. from FY04 Original Approp.
AGRICULTURE	97,150.8	96,479.0	116,641.5	19,490.7	20.1%
ATTORNEY GENERAL	61,462.4	60,740.4	62,315.1	852.7	1.4%
CAPITAL OUTLAY	571,063.9	562,464.1	573,148.3	2,084.4	0.4%
CIVIL RIGHTS	13,117.2	12,654.2	12,791.2	(326.0)	-2.5%
CIVIL SERVICE	31,853.9	31,633.8	35,262.9	3,409.0	10.7%
COMMUNITY HEALTH	9,518,547.4	9,751,028.7	9,802,931.5	284,384.1	3.0%
CORRECTIONS	1,724,507.2	1,705,772.5	1,824,618.9	100,111.7	5.8%
EDUCATION	141,781.7	135,681.7	115,553.4	(26,228.3)	-18.5%
ENVIRONMENTAL QUALITY	345,404.4	371,407.4	340,608.0	(4,796.4)	-1.4%
EXECUTIVE OFFICE	4,859.5	4,859.5	4,859.5	0.0	0.0%
FAMILY INDEPENDENCE AGENCY	3,969,599.8	3,957,242.4	4,336,399.4	366,799.6	9.2%
HIGHER EDUCATION:					
Community Colleges	289,013.1	276,578.6	285,747.0	(3,266.1)	-1.1%
Universities/Financial Aid	1,789,754.5	1,653,663.2	1,631,964.4	(157,790.1)	-8.8%
HISTORY, ARTS, LIBRARY	57,131.1	56,548.0	58,743.2	1,612.1	2.8%
INFORMATION TECHNOLOGY	360,239.3	360,239.3	366,235.8	5,996.5	1.7%
JUDICIARY	253,567.9	253,067.9	253,016.6	(551.3)	-0.2%
LABOR AND ECONOMIC GROWTH	1,133,289.0	1,126,944.2	1,219,276.6	85,987.6	7.6%
LEGISLATURE	119,880.4	118,630.8	118,630.8	(1,249.6)	-1.0%
MANAGEMENT AND BUDGET	230,187.8	229,987.8	157,337.5	(72,850.3)	-31.6%
MILITARY AFFAIRS	103,097.5	103,097.5	110,466.2	7,368.7	7.1%
NATURAL RESOURCES	254,151.0	253,464.0	253,901.1	(249.9)	-0.1%
SCHOOL AID	12,553,369.0	12,375,969.0	12,479,910.2	(73,458.8)	-0.6%
STATE	181,121.5	181,088.3	188,266.0	7,144.5	3.9%
STATE POLICE	458,955.6	452,179.3	475,924.2	16,968.6	3.7%
TRANSPORTATION	3,111,032.1	3,107,818.7	3,292,487.6	181,455.5	5.8%
TREASURY	1,752,682.4	1,691,406.2	1,504,876.9	(247,805.5)	-14.1%
Debt Service	73,286.4	56,286.4	81,450.4	8,164.0	11.1%
TOTAL	39,200,106.8	38,986,932.9	39,703,364.2	503,257.4	1.3%

*Adjusted for program transfers

Historical Expenditures/Appropriations
GF/GP

DEPARTMENTS	FY95 Expend.	FY96 Expend.	FY97 Expend.	FY98 Expend.	FY99 Expend.	FY00 Expend.	FY01 Expend.	FY02 Expend	FY03 Approp.	FY04 Current Law	FY05 Exec. Rec.
Agriculture	41,507,294	43,441,799	36,977,547	34,215,715	39,633,018	52,986,168	57,084,484	49,982,697	36,773,700	30,259,200	31,509,400
Attorney General	26,911,995	28,146,412	28,728,101	28,740,351	30,443,940	34,289,352	34,868,529	34,607,010	32,363,383	30,259,900	30,708,400
Capital Outlay	185,627,808	190,278,423	204,098,457	257,953,893	329,379,869	386,252,729	320,167,644	360,185,429	289,166,900	252,302,500	271,302,100
Career Development						33,300,372	43,751,883	29,176,898	26,572,800	24,335,000	
Civil Rights	12,712,217	11,992,187	11,750,247	11,975,385	12,704,328	14,165,065	14,222,922	13,522,456	12,689,900	11,720,200	11,857,200
Civil Service	10,621,489	12,852,378	12,611,237	13,181,110	15,248,222	21,810,241	12,583,361	9,757,483	9,285,700	7,832,500	7,788,300
Commerce	56,613,455	29,106,436									
Community Health			2,489,426,814	2,435,154,320	2,561,333,736	2,559,451,214	2,688,930,680	2,484,327,571	2,382,030,412	2,652,980,300	2,476,078,800
Consumer and Industry Services			63,702,550	75,721,087	69,255,350	76,578,288	83,001,519	36,506,944	32,900,464	15,965,400	
Corrections	1,176,825,208	1,260,365,194	1,277,460,254	1,268,613,426	1,375,072,599	1,489,668,883	1,605,334,848	1,585,429,705	1,599,803,231	1,609,272,300	1,742,962,500
Education	38,783,018	47,483,089	45,073,591	45,909,895	49,230,423	42,236,526	35,074,679	34,296,626	29,018,216	29,059,700	28,454,300
Environmental Quality		43,802,958	54,796,726	58,544,973	63,141,194	79,540,719	95,089,437	96,847,348	66,653,261	53,580,800	38,152,300
Executive Office	4,432,808	4,835,017	4,741,680	5,118,384	5,067,702	5,411,980	5,604,427	5,443,277	5,021,500	4,859,500	4,859,500
Family Independence Agency			1,116,206,920	1,031,605,019	1,128,549,036	1,176,342,559	1,253,547,822	1,190,047,924	1,115,085,079	1,100,979,000	1,138,331,400
Higher Education											
Community Colleges	247,800,000	253,009,787	262,186,716	274,845,576	281,729,965	297,158,459	314,915,220	319,867,153	307,512,112	276,578,600	285,747,000
Universities/Financial Aid	1,354,883,384	1,410,091,564	1,491,455,863	1,558,484,506	1,601,676,589	1,675,344,915	1,783,607,788	1,813,577,317	1,741,466,933	1,559,432,500	1,536,714,400
History, Arts and Libraries								65,181,649	44,201,700	47,463,100	
Information Technology								0	0	0	0
Judiciary	127,670,370	134,920,282	141,946,079	147,156,019	154,116,508	166,831,336	176,614,842	173,567,315	173,619,100	160,216,400	158,093,300
Labor and Economic Growth											108,910,100
Labor	29,935,652	26,278,836									
Legislature	83,429,886	87,443,092	87,449,913	89,687,113	95,852,029	104,837,979	113,442,020	125,725,987	118,883,500	114,072,800	114,072,800
Legislative Auditor General	10,496,901	10,915,285	10,749,956	10,924,847	11,807,717	12,566,935	13,203,021				
Library of Michigan	27,222,584	26,817,219	27,530,263	29,123,342	30,245,359	30,892,225	33,037,453				
Management and Budget	32,530,866	51,872,600	55,682,772	47,683,349	49,797,993	66,658,586	71,047,662	63,366,159	39,247,311	35,828,900	37,111,600
Aging	22,962,734	23,350,103	24,782,646								
Mental Health	666,682,724	1,074,733,387									
Michigan Biologic Products			16,030								
Michigan Jobs Commission	33,697,834	81,620,151	99,573,779	107,076,910	148,975,478						
Michigan Strategic Fund						45,730,157	65,087,705	44,140,862	52,626,100	38,380,100	
Military and Veterans Affairs	34,151,401	34,763,836	38,616,432	34,930,121	39,199,596	39,377,632	42,361,955	40,371,417	38,378,308	36,328,800	37,563,000
Natural Resources	188,233,744	52,633,781	48,809,945	50,465,267	48,785,001	72,456,134	57,274,846	49,393,752	42,028,947	28,089,400	25,643,100
Public Health	180,077,681	181,656,107									
School Aid	667,914,900	596,352,000	277,947,800	375,967,757	419,597,281	420,113,853	385,227,875	198,091,139	380,056,300	327,700,000	131,800,000
Social Services	2,163,749,837	2,373,218,724									
State	17,375,557	17,554,682	21,679,651	58,564,938	62,396,584	60,328,935	66,418,745	17,815,906	18,141,161	16,698,500	15,321,400
State Police	228,661,359	246,496,416	265,080,734	246,395,418	261,544,659	275,450,994	319,542,658	296,937,551	277,389,448	234,765,200	245,458,500
Transportation	0	0	0	0	0	0	0	0	0	0	0
Treasury	41,993,914	71,336,726	57,509,123	59,341,217	27,321,315	79,947,653	77,418,281	63,806,614	55,723,597	61,806,300	58,562,300
Debt Service	128,023,922	141,845,223	163,367,000	116,440,891	115,964,014	84,918,450	90,745,200	96,014,321	19,586,400	55,408,400	70,563,100
TOTALS	7,841,530,542	8,569,213,695	8,419,958,828	8,473,820,829	9,028,069,505	9,404,648,339	9,859,207,506	9,297,988,510	8,960,475,399	8,812,913,900	8,655,027,900

Historical Expenditures/Appropriations
GROSS

DEPARTMENTS	FY95 Expend.	FY96 Expend.	FY97 Expend.	FY98 Expend.	FY99 Expend.	FY00 Expend.	FY01 Expend.	FY02 Expend.	FY03 Approp.	FY04 Current Law	FY05 Exec. Rec.
Agriculture	55,780,064	59,884,019	66,273,858	71,829,591	77,574,947	90,325,582	93,965,565	98,813,941	100,677,000	96,479,000	116,641,500
Attorney General	40,839,771	43,028,553	44,416,606	42,884,005	47,352,532	53,047,391	55,788,901	55,818,966	60,353,383	60,740,400	62,315,100
Capital Outlay	290,636,661	499,571,713	245,772,178	496,723,755	442,121,005	509,342,187	503,215,119	596,661,057	638,269,700	562,464,100	573,148,300
Career Development						392,500,509	470,999,354	476,701,552	457,824,600	461,595,400	
Civil Rights	14,315,499	13,457,887	13,232,623	13,244,555	13,957,360	14,646,385	15,046,472	14,704,059	13,623,900	12,654,200	12,791,200
Civil Service	27,954,843	30,354,661	25,283,585	28,206,918	29,615,253	39,874,163	31,444,218	29,461,664	30,854,000	31,633,800	35,262,900
Commerce	295,836,299	193,144,304									
Community Health			6,982,832,645	7,231,164,775	7,534,568,089	8,215,483,585	9,024,835,601	9,314,440,367	9,793,501,512	9,711,296,100	9,802,931,200
Consumer and Industry Services			456,397,250	421,826,111	390,437,237	410,919,610	441,915,121	514,757,723	586,215,164	604,641,800	
Corrections	1,206,246,823	1,296,847,339	1,318,192,287	1,334,952,759	1,453,513,634	1,581,552,155	1,702,965,571	1,687,302,370	1,685,406,831	1,705,772,500	1,824,618,900
Education	681,479,871	697,957,806	713,011,559	769,882,208	824,722,372	859,779,826	829,602,201	913,096,820	215,487,216	108,281,200	115,553,400
Environmental Quality		307,805,328	193,902,247	181,985,762	197,727,718	253,398,133	277,186,445	294,778,060	403,999,661	371,407,446	340,608,000
Executive Office	4,432,808	4,835,017	4,741,680	5,118,384	5,067,702	5,411,980	5,664,393	5,443,277	5,021,500	4,859,500	4,859,500
Family Independence Agency			3,495,213,116	3,278,954,106	3,263,651,087	3,389,891,595	3,655,699,431	3,870,634,540	4,075,699,300	3,953,401,300	4,336,399,400
Higher Education											
Community Colleges	247,800,000	253,009,787	262,186,716	274,845,576	281,729,965	297,158,459	315,679,214	320,211,913	310,885,794	276,578,600	285,747,000
Universities/Financial Aid	1,359,107,568	1,413,957,617	1,493,857,731	1,561,667,022	1,604,184,322	1,775,304,640	1,874,447,620	1,946,955,555	1,844,901,735	1,653,663,200	1,631,964,400
History, Arts and Libraries								73,431,526	69,068,136	56,548,000	58,743,200
Information Technology								484,505,913	465,595,500	360,239,300	366,235,800
Judiciary	199,097,762	210,601,105	187,104,924	204,599,850	210,076,397	223,044,229	232,491,773	232,041,240	241,613,800	253,067,900	253,016,600
Labor	232,528,985	274,987,397									
Labor and Economic Growth											1,219,276,600
Legislature	85,242,099	88,075,902	88,025,315	90,234,951	96,560,496	105,202,720	113,703,607	128,573,613	123,441,500	118,630,800	118,630,800
Legislative Auditor General	12,590,516	12,926,954	13,056,351	12,869,037	13,537,569	14,541,223	15,254,871				
Library of Michigan	32,107,952	31,970,662	27,784,497	35,086,400	36,131,970	35,531,114	37,321,104				
Management and Budget	109,262,119	137,469,710	143,070,649	134,397,354	153,180,243	157,518,726	169,723,338	190,815,906	184,509,311	229,987,800	157,337,500
Aging	88,180,585	94,050,068	102,735,110								
Mental Health	1,522,731,485	1,881,660,627									
Michigan Biologic Products			16,101,428	21,796,070	216,139						
Michigan Jobs Commission	280,760,026	316,369,029	333,585,533	356,555,846	482,007,744						
Michigan Strategic Fund						102,804,885	165,836,761	104,367,503	149,083,400	102,337,400	
Military and Veterans Affairs	72,015,536	77,744,603	83,372,837	78,980,935	90,365,660	94,923,386	99,580,645	102,663,243	101,660,408	103,097,500	110,466,200
Natural Resources	515,571,467	171,756,943	198,582,936	210,454,114	218,669,725	250,254,611	262,270,230	263,470,987	262,796,147	253,464,000	253,901,100
Public Health	601,029,072	607,898,745									
School Aid	8,018,667,000	8,331,649,000	8,616,375,000	9,405,837,000	9,647,919,000	10,069,742,011	10,958,833,235	11,373,862,748	12,503,505,800	12,375,969,000	12,479,910,200
Social Services	7,132,053,217	8,212,306,769									
State	140,320,887	146,427,648	150,798,841	148,645,475	158,619,422	166,861,198	180,378,930	169,021,700	243,227,961	181,088,300	188,266,000
State Police	291,179,449	320,805,032	350,427,467	347,462,495	353,827,271	363,551,380	418,779,922	403,696,171	476,325,348	454,122,600	475,924,200
Transportation	2,395,134,800	2,194,045,559	2,818,192,757	2,520,658,697	2,631,185,388	2,660,470,554	2,775,245,805	2,857,404,627	3,106,591,400	3,107,818,700	3,292,487,600
Treasury	1,857,817,145	1,987,113,970	2,049,931,726	2,189,911,359	2,278,280,379	2,306,625,811	2,458,403,396	2,457,411,255	1,843,460,897	1,718,806,700	1,504,876,900
Debt Service	128,023,922	142,278,755	164,065,122	117,140,891	116,691,988	85,618,450	91,445,199	96,714,321	59,586,400	56,286,400	81,450,400
TOTALS	27,938,744,231	30,053,992,509	30,658,524,576	31,587,916,001	32,653,492,611	34,525,326,492	37,277,724,042	39,077,762,617	40,053,187,304	38,986,932,946	39,703,363,900



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE GOVERNOR
LANSING

JOHN D. CHERRY, JR.
LT. GOVERNOR

February 12, 2004

Ladies and Gentlemen of the Legislature and Citizens of the State of Michigan:

Article XI, Section 5, of the Michigan Constitution of 1963, provides that increases in rates of compensation for employees in the state classified service, authorized by the Civil Service Commission, require prior notice to the Governor. The Constitution also requires that I, as Governor, transmit such increases to the Legislature as part of my budget.

On December 18, 2001, the Civil Service Commission approved multi-year collective bargaining agreements with seven state employee unions for Fiscal Years 2003, 2004 and 2005. Fiscal Year 2005 increases contained in all seven of these agreements are reflected in this transmittal. The State Police Enlisted unit is currently in the process of negotiations, thus, it is not included in this correspondence.

On December 11, 2003, the Commission approved Fiscal Year 2005 pay adjustments for non-exclusively represented state classified employees. These adjustments are in line with the adjustments the Commission authorized for employees covered by collective bargaining agreements.

Attached is a cost summary of all the Civil Service Commission's pay actions for Fiscal Year 2005 prepared by the Office of the State Employer. The net additional cost of this pay adjustment for Fiscal Year 2005 is estimated to be \$131.2 million including the state's share of FICA and required retirement contributions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer M. Granholm", written over a horizontal line.

Jennifer M. Granholm
Governor

Attachment

ESTIMATED "New" Costs - Summary
Michigan State Classified Service

Fiscal Year 2005

(10/01/2004 - 9/30/2005)

	A-02 MSEA Sal. & Reg.	A-31 MSEA Labor & Trades	C-12 MCO Security	E-42 31-M Human Sv. Support	H-21 MFES Scientific & Engineering	L-32 UTEA Technical	1-T-01 MSP/TA State Police Elected	U-11 AFSCME Institutional	W-22 UAW Human Sv.	W-41 UAW Admin Sv.	MCO's & NEFE's	TOTAL ALL UNITS (Ex TOI)
² Number of Employees - 10/1/03	1,447	2,623	9,702	865	2,080	995	1,620	2,682	9,556	7,318	14,488	53,366
² Avg. Hourly Salary - 10/1/03	\$ 20.40	\$ 18.79	\$ 19.68	\$ 17.54	\$ 26.54	\$ 19.74		\$ 16.67	\$ 22.20	\$ 17.59	\$ 27.82	\$ 22.23
² Avg. Annual Salary - 10/1/03	\$ 42,595	\$ 39,234	\$ 41,530	\$ 36,624	\$ 55,416	\$ 41,217		\$ 34,807	\$ 46,354	\$ 36,728	\$ 59,088	\$ 46,412
Base Pay Adjustment for FY 2004												
4% Base Wage Increase 10/01/2004	\$ 2,455,410	\$ 4,116,381	\$ 16,117,087	\$ 1,282,524	\$ 4,568,239	\$ 1,640,441		\$ 3,734,091	\$ 17,718,220	\$ 10,750,997	\$ 33,686,486	\$ 96,047,866
Additional Pay-Up Cost Based on Base Pay Increase												
³ FICA/Fed. Blended Rates - 10/1/03	28.33%	28.54%	29.48%	28.11%	28.20%	28.24%	40.69%	28.39%	28.39%	28.32%	28.81%	28.69%
³ FICA/Fed. on Base Wage Increase	\$ 688,461	\$ 1,174,815	\$ 4,751,317	\$ 382,085	\$ 1,287,679	\$ 463,261		\$ 1,080,108	\$ 5,024,882	\$ 3,044,682	\$ 9,705,077	\$ 27,582,366
⁴ Life Insurance Increase	\$ 31,602	\$ 57,286	\$ 211,892	\$ 14,005	\$ 56,238	\$ 21,731		\$ 43,931	\$ 208,703	\$ 119,889	\$ 365,795	\$ 1,161,033
⁵ Long Term Disability Increase	\$ 25,640	\$ 42,810	\$ 167,618	\$ 13,025	\$ 47,488	\$ 17,061		\$ 38,635	\$ 184,269	\$ 111,810	\$ 350,339	\$ 998,898
⁶ Overtime Increase	\$ 163,212	\$ 230,663	\$ 1,574,794	\$ 147,437	\$ 12,829	\$ 150,186		\$ 455,329	\$ 320,225	\$ 155,747	\$ 388,082	\$ 3,603,474
⁷ Shift Differential Increase	\$ 15,055	\$ 9,827	\$ 321,483	\$ 300	\$ 328	\$ 1,453		\$ 48,806	\$ 26,305	\$ 9,011	\$ 133,907	\$ 557,485
FOA/FET on OT and Shift Diff. Inc.	\$ 50,503	\$ 68,636	\$ 593,025	\$ 41,529	\$ 3,710	\$ 42,823		\$ 143,682	\$ 98,276	\$ 46,659	\$ 153,258	\$ 1,208,111
Total FY 2005 Additional Costs	\$ 3,449,873	\$ 5,700,418	\$ 23,703,225	\$ 1,820,905	\$ 5,974,513	\$ 2,335,555	Unknown	\$ 5,528,791	\$ 23,580,882	\$ 14,238,775	\$ 44,822,914	\$ 131,155,231

¹ Fiscal Years 2003, 2004, and 2005 negotiations are currently in progress.

² MCO's, VTMI, HRM, EMPLOYEES, PP 21. Employment Status Code = AA, AB, AC, AD, AE, AP

³ FY 2004 Rates from CRM Ruth Mealy 10/1/2003 memo. Unit rates are weighted by enrollment. Assumes State maximum contribution for retirement code 40.

⁴ Life insurance increase on incremental cost increase. Rate as of FY 2004, Annual \$5.45 per \$1000 of extra coverage.

⁵ Rates as of FY 2004 - (Increase/100)*1.04.

⁶ Based on FY 2003 payment * FY 2004 3% increase.

⁷ Based on FY 2003 hours and FY 2004 3% increase.

LEGISLATION NEEDED TO IMPLEMENT FISCAL YEAR 2005 BUDGET RECOMMENDATION

DEPARTMENT	PURPOSE	MICHIGAN COMPILED LAW (MCL) BEING AMENDED
Capital Outlay	CMRS Emergency Telephone Fund	MCL 484.1409
	Property Conveyance for North Lansing Complex	NA
Community Health	Public Health Code - Nursing Home Leave Days	MCL 333.21777
	Vital Records Fees	MCL 333.2891
	Quality Assurance Assessment Program - Health Maintenance Organizations	MCL 333.20161
	Quality Assurance Assessment Program - Specialized Mental Health Residential Beds	MCL 333.20161
	Quality Assessment Program - Nursing Homes	MCL 333.20161
	Quality Assurance Assessment Program - Hospitals	MCL 333.20161
	Mail Order Pharmacy	MCL 333.17763
Corrections	Sentencing Guidelines Revisions	MCL 777.65 - 67
Department of Labor and Economic Growth	Metropolitan Extension Telecommunication Rights-of-Way Oversight Authority Administrative Costs	MCL 484.3111
	Michigan Liquor Control Code	MCL 436.1233
Natural Resources	Lake Level Special Assessments	MCL 324.30711
	Repeal Decennial Adjustment on Commercial Forest Tax	MCL 324.51105 to 324.51107
	Payments in Lieu of Taxes	MCL 324.2153 to 324.2154 and MCL 141.913
Transportation	Critical Bridge Program	MCL 247.660 and 247.661b
	Correct Diesel Tax Reference in Formula	MCL 247.660 (1)(c) and (d)
Treasury	Increase Tax on Tobacco Products and Earmark Funds	MCL 205.427 and MCL 205.432
	Decouple from Federal Estate Tax and Earmark Funds	MCL 205.232, 205.232a, 205.233, 205.252, and 205.256
	Revenue Sharing Revisions	MCL 141.911 and MCL 211.44a